

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF TEXAS  
HOUSTON DIVISION

LAURA PENDERGEST-HOLT,	)	CASE NO: 4:09-CV-3712
	)	
Plaintiff,	)	CIVIL
	)	
vs.	)	Houston, Texas
	)	
CERTAIN UNDERWRITERS	)	Tuesday, August 24, 2010
AT LLOYD'S OF LONDON,	)	( 9:18 a.m. to 1:29 p.m.)
	)	( 2:30 p.m. to 6:16 p.m.)
Defendant.	)	

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#117 - INJUNCTION HEARING;  
#193 - MISCELLANEOUS

BEFORE THE HONORABLE NANCY F. ATLAS,  
UNITED STATES DISTRICT JUDGE

Appearances:	See Next Page
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Houston, Texas; Tuesday, August 24, 2010; 9:18 a.m.

(Call to Order)

**THE MARSHAL:** All rise.

**THE CLERK:** Hear ye, hear ye, hear ye. United States District Court for the Southern District of Texas; the Honorable Nancy F. Atlas presiding, is now in session. God save these United States and this Honorable Court.

**THE COURT:** Please be seated. This is the case of *Laura Pendergest-Holt, Mark Kuhrt and Gilbert Lopez against -- well, and Allen Stafford against Certain Underwriters at Lloyd's.*

Will counsel state their appearances, please?

**MR. BENNETT:** Bob Bennett for Mr. Stanford, your Honor.

**MR. WALLIS:** Olney Wallis for Mr. Stanford, your Honor.

**MR. KENNEDY:** Kirk Kennedy, Allen Stanford.

**MR. ZIMMERMANN:** Good morning, your Honor. Jack Zimmermann and Cole Ramey for Mr. Lopez. This is Mr. Ramey from Dallas.

**THE COURT:** Okay.

**MR. ZIMMERMANN:** The Court had permitted him to appear as part of the criminal defense team to --

**THE COURT:** Okay.

**MR. ZIMMERMANN:** -- handle witnesses.

1           **MR. SHIDLOFSKY:** Lee Shidlofsky and Alan Cohen for  
2 Mr. Lopez and Mr. Kuhrt.

3           **MR. KUNIANSKY:** Good morning, your Honor. Richard  
4 Kuniansky on behalf of Mark Kuhrt, and I have Richard Bramer,  
5 my assistant, seated next to me.

6           **THE COURT:** Okay. Where's Mr. Kuhrt?

7           **MR. KUNIANSKY:** Mr. Kuhrt is present.

8           **THE COURT:** Are we not going to have the clients  
9 sitting with the lawyers?

10          **MR. KUNIANSKY:** We didn't have enough chairs, your  
11 Honor.

12          **MR. ZIMMERMANN:** We're out of space, Judge. They're  
13 both here. Mr. Lopez is also here.

14          **(Whispers and voices heard)**

15          **THE COURT:** We have chairs in the jury room if you  
16 need them. I know it's tight. This is one of the benefits of  
17 this courtroom, but I do think it would be important.

18          **MR. KUNIANSKY:** I would like to have him up here,  
19 then, if we can make space.

20          **THE COURT:** Okay.

21          **MR. CHASNOFF:** Your Honor, Barry Chasnoff for  
22 Underwriters. Neel Lane is with me, as well a number of  
23 lawyers from the firm who won't be asking questions but, for  
24 the record, Manuel Mungia, McLean Pena, Brandon Danford and  
25 Matt Pepping.

1           **THE COURT:** You have another person at the table?

2           **MR. CHASNOFF:** And this is who we believe to be the  
3 world's best paralegal, Lisa Lightner.

4           **THE COURT:** Okay.

5           **MR. CHASNOFF:** And if I might introduce to the Court,  
6 our client is also here, Mr. Paul Sewell who is with -- stand  
7 up, Paul -- with the lead underwriter, and he will be  
8 testifying.

9           **THE COURT:** Okay, fine. Let's get two more chairs  
10 from the jury room. Would you help us, please?

11           **MR. UNIDENTIFIED:** Yes, ma'am.

12           **(Whispers / Chairs being moved)**

13           **THE COURT:** All right, it's going to take some doing.  
14 If the -- the podium's going to need to be moved a little bit.  
15 It's in an odd place. It's fine with me, frankly, but is that  
16 where you're going to want it for the opening statements? Is  
17 that the idea?

18           **MR. CHASNOFF:** Yes, ma'am. I didn't want to put my  
19 back to the counsel. And the reporter said she would be able  
20 to pick me up if I stood right here.

21           **THE COURT:** Fine, okay. If you just keep your voice  
22 up, it would be great. We have a lot of microphones. The  
23 courtroom is new. Like anybody who was here before, they  
24 noticed how pretty it is, but it is not perfect and so we do  
25 need everyone to keep their voices up. We're recording this.

1 It is -- we do not have daily -- daily copy.

2 (Voices and whispers as chairs are being moved)

3 THE COURT: Okay, as soon as we get the chair  
4 situation worked out -- we might have another bookcase or two  
5 we can rustle up, if that would help, especially at this middle  
6 table. Okay. Are those chairs adequate?

7 (No audible response)

8 THE COURT: All right, good. Paula, you gave me a  
9 seating chart but I don't know where it is.

10 (Court confers with Court Recorder)

11 Okay. Okay. All right, well, we may work on it a  
12 little bit.

13 Today is the beginning of the hearing on  
14 Underwriters' coverage issues. The Court has issued, I don't  
15 know, two dozen opinions in this case in writing. Some of them  
16 have been on the fly. I got the impression that the parties  
17 wanted a couple of preliminary matters ruled on as early as  
18 possible, so last night I issued what I've called a preliminary  
19 memorandum and order on Davis and Van Tassel matters, and that  
20 is an order giving my reasoning for admission of the Davis plea  
21 agreement and transcript of the re-arraignment allocution.

22 I also have ruled that the -- that two Van Tassel  
23 declarations with exhibits can be received again in a somewhat  
24 limited way. The ruling is in writing so I'm not going to  
25 repeat it. I just want to be sure you have it. It wasn't

1 issued till 10:00 o'clock last night because I was in court all  
2 day yesterday; did the best I could. I know we're all  
3 operating under very tight time constraints, so I'd like to  
4 extend my congratulations to all parties and counsel for  
5 bearing with us on this tight schedule.

6 This is a civil case. It is a preliminary injunction  
7 hearing. It is very important to all parties. I recognize  
8 that it is a decision that you all want promptly and with as  
9 much reasoning as possible. But I also want you to appreciate  
10 that there is -- that this is a matter that needs careful  
11 consideration. I know you all have worked hard and intend to  
12 introduce a lot of evidence.

13 I have not reviewed the exhibits that you've  
14 submitted, except in limited part; for instance, when I was  
15 hunting for Van Tassel's declarations. I couldn't possibly  
16 rule on whether they were admissible unless I could find some  
17 of them. There were two attached to motion papers, and I  
18 decided that those must be exemplars, and so I used those. For  
19 the record, I will tell you that I'm aware of other ones but  
20 I'm not sure what they're being offered for. And so, until I  
21 know something more specific, I can't decide whether any others  
22 should be admissible or not.

23 The rulings I made yesterday are preliminary, in that  
24 once I have seen and heard other evidence, and once I've got  
25 specific proffers on specific portions of these transcripts,



1 declarations or plea agreement, then I will be able to say yea  
2 or nay it's in or it isn't. So, you read the law that I cited.  
3 Limine motions are sometimes favored, but sometimes not.  
4 They're difficult to do in a vacuum.

5           So, I will tell you also for the purposes of your  
6 information and preparation, I have read virtually everything  
7 that has been submitted. There are a couple of things I  
8 haven't quite finished, but I have made a sincere effort to  
9 keep up with you.

10           As you can see, there's one of me, and I have one law  
11 clerk working on this case; so I'll just be frank, one. So  
12 there are two of us, and I'm a decision maker. And you look  
13 around the room and you can see how many there are of you, and  
14 for every person in this room I'll bet there are a couple, if  
15 not more, back in the office. So I respect that you have to  
16 gather the information, but I hope you will understand that I  
17 also am trying to appreciate what's going on and understand it.

18           I'm going to be trying to simplify this case, because  
19 I don't think that we need 70 pages of findings of fact and  
20 conclusions of law, even though each of the groups of parties  
21 or each party has submitted that. I'm happy to get the  
22 information because I've learned from it. But on the other  
23 hand, I don't know that it's as complicated as you guys are  
24 presenting. So, that was intended not as a criticism but as a  
25 theme, which is that I'm going to be trying to simplify and

1 figure out what's really important and focus in on that. That  
2 will be true with respect to the questioning of witnesses and  
3 other things.

4 Now, I have given us three days, and I've given you  
5 some indication that if we really need it we can have a fourth  
6 day, most of a day. But I have sincere hopes that we can get  
7 this done within that time limit. I've given you hours. We  
8 have a time clock in that the recording keeps track of who  
9 talks when. I am not going to be doing it to the minute.  
10 There will be rounding, I promise you that. That's the good  
11 news, because I will round in your favor.

12 But it is important that you understand that the goal  
13 here is to focus, and for you to understand, again, that I am  
14 an educated listener; I'm not starting from square one. And I  
15 have no compunction about asking questions. So you'll know  
16 when I'm confused, at least I hope you will. If I know I'm  
17 confused, you'll know.

18 We do have some more preliminary matters, and here's  
19 what I was thinking we could do. First of all, we do have the  
20 Stanford issues regarding counsel, which I'm going to hold off  
21 on, because I don't want to do that in open court. And I see  
22 that there are plenty of people sitting at the table who look  
23 like they know what they're doing. And I know Mr. Wallis from  
24 his reputation. And I know Mr. Bennett. And so I've read  
25 other things. So I'm thinking that we're okay for now.

1           With respect to objections to exhibits, it's a bench  
2 trial; and it's a preliminary injunction hearing; and I will  
3 take it as it comes. I am not going to do objections -- when I  
4 looked at the objections, I think it was the Plaintiffs had  
5 objections to virtually every defense exhibit, and the hearsay  
6 and authenticity. And so, I mean, I'm just going to take it as  
7 it comes.

8           With respect to the experts that I've not yet ruled  
9 on, everybody's got a couple of experts, one or two anyway; and  
10 my inclination on them is as follows: The two primary experts,  
11 Berenblut and --

12           **MR. LANE:** Westheimer?

13           **THE COURT:** Yes, Westheimer, thank you. I was  
14 drawing a blank. They are what they are. They purport to have  
15 reviewed a wide variety of documents, but have not done the  
16 extensive review that Van Tassel and FTI have done. My view  
17 about it is, I've read their reports. I'm not thinking there's  
18 a whole lot of value in there. But I think for ease of  
19 everything, I'm going to just say put them on the stand and  
20 I'll have the Daubert Hearing at the same time that I have the  
21 substantive hearing; and I will decide what, if anything, they  
22 can testify to in the way of opinions.

23           I have already ruled that Mr. Westheimer can testify  
24 to factual matters and to the extent that he is the repository  
25 of admissions, as the Underwriters call it, of Mr. Kuhrt and

1 Mr. Lopez. And again, I've read his whole report, actually  
2 more than once, to try in advance to figure out what to do with  
3 him. And truthfully, I'm not sure what opinions I will receive  
4 of his. When he says that conduct was (quote) "appropriate," I  
5 don't know what that means. So, to me, that's not a valuable  
6 opinion, but I do think that I would like to hear him testify  
7 because maybe he can elucidate for me what it is he's trying to  
8 tell me that's relevant here.

9 This is not the criminal trial. The issue, I think,  
10 Plaintiffs have fairly characterized is in, in some substantial  
11 part, what the Plaintiffs knew when with respect to their  
12 appreciation of misconduct or inappropriate conduct, illegal  
13 conduct that the Underwriters are charging and that has been  
14 described in the papers. So Westheimer cannot testify to  
15 knowledge. Period.

16 And so I'm not sure, frankly, what Westheimer is  
17 going to offer in the way of opinions that I think are valuable  
18 but we'll find out as we go through; and I will just simply  
19 consider the opinions as we go and decide whether I think that  
20 they are of -- methodologically sound and reliable and whether,  
21 frankly, they are within his expertise. I simply could not  
22 tell from the report or the motion to strike.

23 The issue with respect to Berenblut is somewhat the  
24 same. He's accused of basically being a tagalong to Van  
25 Tassel. That is not completely wrong. But Berenblut may have

1 some value. I can't tell exactly what. So I am going to  
2 determine what, if anything, he can add when I find out what  
3 questions people want to ask him. So I'm not striking him as  
4 an expert at this time. I think he can testify, and I will  
5 decide whether anything he has to say meets the Daubert  
6 criteria and is admissible.

7 With respect to Mr. Stanford's experts, they're in a  
8 little bit of a different category. And I'm honestly not sure  
9 what the expert, Lehrer, has to offer. I see that he's  
10 testified many times, according to the defense -- or the  
11 Underwriters, 1600 times. The data he relied on is secondary  
12 information in some respects, but he -- and then other -- in  
13 other respects, it's information I cannot assess.

14 But he has relied on, according to his own report,  
15 things like the indictment; the reported investigations of the  
16 SEC; the plea agreement of Davis; the 10-K of FTI; that is, the  
17 employer of Van Tassel; the Court of Appeals decision in this  
18 case; a disclosure statement from 1998 and then amended through  
19 November 7 -- November '07.

20 Then the other expert reports: Berenblut, Compton,  
21 Westheimer; some article about Ponzi schemes; attorney notes of  
22 the Stanford Group Company, which, frankly, I'm sort of afraid  
23 to even ask about because I'm concerned about the attorney-  
24 client privilege. But that's the full extent of the  
25 description: (quote) "various corporate organizational charts

1 of Stanford Financial Group and affiliates of subsidiaries"; an  
2 order from the District Court -- I guess that's Judge Hittner's  
3 order -- Declaration of Nigel Hamilton-Smith; supplemental  
4 declaration of the same person; various affidavits of Carol Van  
5 Tassel; federal income tax audits of Allen and Susan Stanford  
6 for 2000, 2001 and '2; every -- an arraignment hearing of the  
7 Plaintiffs other than Stanford; the insurance policies  
8 involved; the Orange Database, various search/research  
9 undertakings, undisclosed, undescribed, undefined;  
10 Underwriters' Designation of Expert List; some case from New  
11 York, the Ralph Cioffi (phonetic) case from 2008 -- completely  
12 unrelated; and then personal meetings and interviews with Allen  
13 Stanford.

14 His opinions include the following, and I have no  
15 idea why this is relevant. The information on which he relies,  
16 however, to me is undefined and, frankly, either the same as  
17 the people he's criticizing but in far smaller quantity or is  
18 irrelevant. But anyway, the conclusions he's offering are  
19 things such as -- and I quote from page 10 now.

20 "Based upon the documentation provided, (quote)  
21 'There was clearly no mention of forced labor, or any  
22 complaints to suitable authorities in regard to  
23 unlawful conduct by Mr. Stanford or his organizations  
24 in regard to appropriate employment of individuals to  
25 fulfill the labor requirements of his

1 organizations.'" (closed quote)

2 And he also says that the data denotes that the  
3 people were (quote) "adequately compensated and totally free to  
4 terminate their relationship." (closed quote)

5 The next opinion in the section called Land is:

6 "Based on the documentation, there was (quote)  
7 'clearly no mention of land rustling or other forms  
8 of obtaining land via force or inappropriate  
9 methods.'" (closed quote)

10 And he then says that there's legal documentation  
11 denoting the acquisitions of the land by acceptable methods;  
12 meaning, I guess, it was paid for. And then (quote)

13 "Hence, it is more than reasonable and equitable to  
14 conclude that land or real estate component of the  
15 production factors were appropriately obtained from  
16 those who furnished or sold their land to the  
17 Stanford group of companies at their own discretion."  
18 (closed quote)

19 So I think that means that those -- the property was  
20 not stolen. I'm not sure what the relevance of this is but  
21 nobody is accusing Mr. Stanford of forced labor or stealing  
22 real estate.

23 In terms of the capital, he says there's an --  
24 (quote) "appropriate agglomeration," A-G-G-L-O-M-E-R-A-T-I-O-N,  
25 "of funds," (closed quote) from which the organization

1 operates.

2 Oh, okay, and then page 11, (quote)

3 "There was clearly no mention of robbery or assault  
4 by Mr. Stanford or any members of his organization in  
5 order to obtain appropriate and necessary funds with  
6 which to operate organizations or earn a reasonable  
7 rate of return for shareholders and employees."

8 (closed quote)

9 I don't know that anybody's accused Mr. Sanford of  
10 assault, but the robbery piece usually means that you are  
11 taking things by force. I don't think that's in this case, to  
12 the extent that this kind -- this opinion says there's an  
13 adequate or reasonable rate of return for shareholders, that  
14 was Mr. Stanford. That's not an issue in this case. And  
15 employees don't get a reasonable rate of return so I don't  
16 understand that part of the quote.

17 And then page 11, this is a sort of teeing up the  
18 rest of the report. It says, "If" -- and I'm quoting again,

19 "If said capital was attracted and obtained by  
20 generally accepted and approved methods, then Certain  
21 Underwriters at Lloyd's of London or and Arch  
22 Specialty Insurance are obligated to supply adequate  
23 funding for Mr. Stanford and others in their legal  
24 defense against allegations brought by the United  
25 States of America." (closed quote)



1           There's no explanation of that conclusion. I don't  
2 understand the reasoning in it. And to the extent that that is  
3 the punch line of this report, the report lacks reliability; it  
4 is not methodologically sound. And, frankly, I don't know what  
5 the conclusion even means. So to the extent that these are the  
6 kinds of conclusions that Mr. Lehrer is offering, he and the  
7 report are inadmissible as completely wanting under the Daubert  
8 standards.

9           The report does go on and talks about attainment of  
10 funding, and then there's an accusation section and a response.  
11 I will -- and I have read the report in detail, and I will  
12 consider it. But I view this report to be, basically, an ipse  
13 dixit report and set of opinions. Under Fifth Circuit law,  
14 experts are not allowed to just give opinions based on their  
15 say-so. And so I find Mr. Lehrer's report to be not  
16 satisfactory and will not meet the standards of admissibility  
17 under the Fifth Circuit and the Supreme Court of the United  
18 States. So that report will not be received.

19           For Mr. Stanford's edification, I have, again, read  
20 this report and simply don't see anything of value in it. He  
21 does, Mr. Lehrer, criticize Mr. Berenblut time and again with  
22 the accusation sections. Those are criticisms that are made  
23 elsewhere, so Mr. Lehrer's report is completely cumulative to  
24 the extent that he is unimpressed with Berenblut and  
25 Berenblut's methodology. Those weaknesses I've already noted,

1 and we will talk about that as the time comes when  
2 Mr. Berenblut testifies.

3           There's a second report from Mr. Stanford's team, and  
4 this is the expert report of Christopher Bebel. I will treat  
5 Mr. Bebel in the same fashion as the Westheimer and the  
6 Berenblut expert matters.

7           Mr. Bebel is a securities lawyer, and so his  
8 experience and his expertise, to me, are of questionable  
9 relevance. But maybe he can explain better what it is that  
10 he's aiming for. To the extent that Mr. Bebel believes that  
11 there is direct evidence of anybody's state of mind, and he  
12 criticizes -- to the extent that he believes that there is a  
13 need for direct evidence, the premise is -- is off.

14           There is no need for direct evidence of criminal  
15 conduct or criminal intent; circumstantial evidence is  
16 sufficient. And we all understand that this case needs to be  
17 measured on a preponderance of the evidence standard. Direct  
18 and circumstantial evidence are admissible, and I will be using  
19 them.

20           To the extent Mr. Bebel has an opinion in here that  
21 is of any relevance, it can be argued; and I will determine its  
22 weight and importance and relevance at the time, similar to the  
23 way I'm doing the other experts. To the extent that there's a  
24 state of mind requirement, though, such as on page 10 of the  
25 report, the -- that is irrelevant, and I -- that's not the

1 province of an expert.

2           So, Mr. Lehrer is stricken; Mr. Bebel is treated like  
3 Mr. Westheimer and Mr. Berenblut. Those are the rulings on the  
4 other limine matters for the experts. I think that catches me  
5 up with you all.

6           Is there any other ruling that you are aware of or  
7 needing? I guess I have one more. That is, the Underwriters'  
8 request regarding inferences from the Fifth Amendment plea of  
9 -- by Plaintiffs. I'm just going to hold on that. It's not  
10 necessary right now, and I'd rather not get into it until after  
11 I've heard the evidence. So I will wait.

12           I'll note, for the record -- I should have done this  
13 earlier -- Ms. Holt, Pendergest-Holt, is not here. My  
14 understanding is that she has reached a settlement with the  
15 Underwriters; is that correct?

16           **MR. CHASNOFF:** That's correct, your Honor.

17           **MR. KUNIANSKY:** It is, your Honor.

18           **THE COURT:** Okay, so I've noted that. I have some  
19 confusion with respect to exhibits. I know the parties have  
20 delivered binders to me, and we have tried to check them  
21 against the lists. We are unsure that we have all of them.  
22 But it may have to do with the Holt withdrawal from this  
23 hearing, or it may have to do with the fact I don't have them.  
24 So I will deal with that as you see fit. If you want to tell  
25 me what you think you've delivered, I can check.

1           **MR. SHIDLOFSKY:** Your Honor, we did not deliver the  
2 Holt exhibits yesterday, which were several notebooks on  
3 Plaintiffs.

4           **THE COURT:** Like 1 through 100 and something?

5           **MR. SHIDLOFSKY:** I believe so.

6           **THE COURT:** That's what I was hoping.

7           **MR. SHIDLOFSKY:** Yes. So what you got yesterday from  
8 us were Kuhrt's exhibits, Lopez exhibits; and then there was  
9 some joint exhibits that were going to be Holt, Kuhrt and Lopez  
10 exhibits.

11           **THE COURT:** Okay. Then I think I'm okay.

12           **MR. SHIDLOFSKY:** I think you have all of the ones we  
13 (indiscernible).

14           **THE COURT:** Okay. I have no books that say one for  
15 -- it says Kuhrt Exhibits 1 through -- no, I'm sorry, 146  
16 through 151?

17           **MR. SHIDLOFSKY:** Correct. And there's a CD in there  
18 with an audio recording as 151.

19           **THE COURT:** Okay, I haven't opened it; 152, 168 seem  
20 to be joint exhibits --

21           **MR. SHIDLOFSKY:** That's correct.

22           **THE COURT:** -- if they do say Holt, but they're also  
23 the other two --

24           **MR. SHIDLOFSKY:** That's correct, your Honor.

25           **THE COURT:** -- so you quoted me. So I'll cover up

1 Holt. And then we have Lopez, 127 to 145?

2 **MR. SHIDLOFSKY:** That's correct, your Honor.

3 **THE COURT:** And then we have some more Underwriters.  
4 Okay, fine. That explains that one.

5 Mr. Stanford, do you have any -- Mr. Bennett, any  
6 exhibits?

7 **MR. BENNETT:** We do, your Honor; and the binders are  
8 here in front. We brought them this morning.

9 **THE COURT:** Okay.

10 **MR. BENNETT:** We're still adding to them, and so  
11 that's the reason for the delay.

12 **THE COURT:** All right. Well, in the course of the  
13 hearing, if you intend for me to look at exhibits, I would need  
14 them up here. We do have an Elmo and I have a screen; and, you  
15 know, you all see the screens on your tables. We can use them.  
16 And so it's not an emergency, but eventually I need copies of  
17 the exhibits that are received.

18 **MR. BENNETT:** We also have them loaded on the laptop,  
19 your Honor. We can do it that way too.

20 **THE COURT:** I will not have -- I mechanically cannot  
21 look at them that way here, but maybe for later I can take  
22 that. That would be good.

23 **MR. BENNETT:** One other point, your Honor. I  
24 understand we'll be moving into opening statements.

25 **THE COURT:** Yes.

1           **MR. BENNETT:** And with permission of the Court and to  
2 simplify and maybe even shorten, I would like to reserve my  
3 opening statement till the time of our evidence.

4           **THE COURT:** No. No, this is a civil case. And I --  
5 I know that is appropriate in criminal cases, but this is a  
6 civil case. I need to know where you're going.

7           **MR. BENNETT:** Okay.

8           **THE COURT:** And I have read the proposed findings, so  
9 I have some feel but I really do want -- because the proposed  
10 findings are enormous, and they are -- frankly, it would be  
11 very helpful to me to get some sort of a feel for where you're  
12 going. It doesn't have to be fabulous, it just needs to be  
13 informative. I just need a little roadmap.

14           **MR. LANE:** Your Honor, just on the exhibits, I wanted  
15 to note one thing.

16           **THE COURT:** Yeah.

17           **MR. LANE:** We, on Sunday, got together with lawyers  
18 for Kuhrt, Lopez and Holt to discuss objections and discussion  
19 among the exhibits. We don't have all of the exhibits from  
20 Mr. Stanford. And although invited, counsel --

21           **THE COURT:** No, because they're adding to --

22           **MR. LANE:** -- counsel for Mr. Stanford did not attend  
23 the meeting. So we didn't really get an opportunity to discuss  
24 objections to the exhibits. We don't even have some of the  
25 exhibits. So...

1           **THE COURT:** They -- from them, you mean?

2           **MR. LANE:** Yes, from them. So --

3           **THE COURT:** All right.

4           **MR. LANE:** -- we've provided -- the Plaintiffs  
5 provided us their exhibits; we provided them our exhibits and  
6 so forth.

7           **THE COURT:** Right.

8           **MR. LANE:** And there was just a disconnect in one  
9 part of the counsel relationships.

10           **THE COURT:** Okay. Well, you know, we're just going  
11 to do this the old-fashioned way. You've got gray hair,  
12 Mr. Chasnoff, you know what I mean.

13           **(Laughter)**

14           **MR. CHASNOFF:** Well, that's now officially on the  
15 record.

16           **(Laughter)**

17           **THE COURT:** You know, I have to say it's like  
18 wrinkles and gray hair, you know. In our business, I think it  
19 helps, you know. It adds credibility, one might say.

20           **MR. CHASNOFF:** I just wanted to say, to make sure, we  
21 provided Exhibits 1 through 224; and I believe the Court has  
22 all of our Underwriters' exhibits.

23           **THE COURT:** Okay. I have Underwriters' exhibits up  
24 through 224; is that what you said?

25           **MR. CHASNOFF:** Yes, your Honor.

1           **THE COURT:** Yeah. Okay, the Plaintiffs are going to  
2 go first. These opening statements, in my mind, are designed  
3 for you to tell me what you're going to try to show me, you  
4 know, just at 10,000 feet. And I am interested -- frankly, I  
5 have idea what your witnesses are going to say, and you don't  
6 have to tell me in any detail. But I have -- I haven't read  
7 all your documents either because they're not in evidence. But  
8 I've read the findings and those kinds of things. But I'm  
9 interested in knowing what you think the witnesses are going to  
10 sort of add to the mix, if you know and -- but again, not too  
11 detailed. Just give me a feel because I don't want to spend a  
12 lot of time on it.

13           One thing, also, I think I need to tell you. I don't  
14 remember if I've said this. It is my practice to require pre-  
15 marking of exhibits. But my practice also is that there is no  
16 data dump into the record. There -- I think I told you this on  
17 a telephone call, but if not, here it is. You need to offer  
18 the exhibits by number so that both I and the record know  
19 what's coming in. The fact that you have numbered a paper and  
20 identified it as an exhibit, does not get it into evidence.

21           This is how I've done trials since day one. It's how  
22 we used to do trials. It's -- the pre-marking is a convenience  
23 so we don't have to stand there and do the stickers and figure  
24 out what it is, and do the objections, or all this surprise.  
25 But it is important that you appreciate -- I mean, I'll take



1 groups if you'll define for me what they are.

2 But, for instance, if somebody is going to offer the  
3 Stanford Financial Group disclosure statements; that is, their  
4 promotional materials, I want to know what exhibits those are,  
5 what numbers. Okay? And I will tell you that I'm very  
6 interested in those. So, anyway, that's the kind of thing --  
7 you have to offer them. I'll work with you; it won't be too  
8 difficult.

9 MR. SHIDLOFSKY: Your Honor, obviously we'll do  
10 opening statements any way the Court likes. It was our  
11 expectations; and since the Court's already ruled that  
12 Underwriters has the burden of proof --

13 THE COURT: Uh-huh.

14 MR. SHIDLOFSKY: -- they'd be leading off --

15 THE COURT: That's fine.

16 MR. SHIDLOFSKY: -- on opening statements.

17 THE COURT: I just thought you might want to go  
18 first.

19 MR. SHIDLOFSKY: Well, I mean --

20 THE COURT: Who knows?

21 MR. SHIDLOFSKY: -- not to burden my team, but --

22 THE COURT: Okay.

23 MR. CHASNOFF: And one clarification I'd like to get  
24 on exhibits. We read carefully the Court's rulings on the Van  
25 Tassel materials and the Davis materials, and how parts of

1 those are -- preliminary ruling -- are admissible, and parts  
2 are not. It would be our preference, if it works for the  
3 Court, when we offer them to not try to redact and --

4 **THE COURT:** Oh, no, you don't have to redact.

5 **MR. CHASNOFF:** Okay.

6 **THE COURT:** No. It's just that, I mean, you all know  
7 I've read them already.

8 **MR. CHASNOFF:** Yeah.

9 **THE COURT:** But the point is that I view the rulings  
10 as appellate issues. And so, at some point, I'm going to be  
11 able to say I relied on Van Tassel for the following things.  
12 And I relied on Davis' allocution or plea agreement or whatever  
13 for the following things. But big picture, I'm letting that be  
14 part of the play of this trial. And it is indefinite at the  
15 moment.

16 **(Pause / Counsel confer)**

17 **THE COURT:** Do the parties mind if we still call this  
18 case Pendergest-Holt or Holt or -- I don't know how Mr. Cogdell  
19 feels -- or she feels.

20 **MR. COGDELL:** I probably don't have standing since I  
21 don't even have a tie, but I don't care what you call it.

22 **THE COURT:** You don't, I noticed.

23 **(Laughter)**

24 **MR. COGDELL:** I didn't expect to be this far forward.  
25 I apologize to the Court.

1           **THE COURT:** You forgot how small the courtroom is.

2           **MR. COGDELL:** But however you want to refer to it, I  
3 don't have a problem with it.

4           **THE COURT:** Okay. Well, that's what's in the  
5 caption.

6           **MR. COGDELL:** Yes.

7           **THE COURT:** So for the time being, we'll just keep it  
8 that way. You ready?

9           **MR. CHASNOFF:** Yes, your Honor. And I -- oh, one  
10 request, your Honor. If -- Mr. Berenblut is here in the  
11 courtroom. I would like, during my opening, for him to be able  
12 to see a screen. Would it be permissible for him to sit up in  
13 the jury box so he can see a screen?

14           **THE COURT:** Sure. Any of the experts who want to sit  
15 in the screen -- sit in the jury box, you can do that. I just  
16 have to make sure my system is working. Are you seeing  
17 anything? Has anyone turned anything on?

18           **MR. CHASNOFF:** Yeah, we --

19           **THE COURT:** How are you operating?

20           **MR. CHASNOFF:** It is switched to us now, and we have  
21 slides, the -- on point.

22           **THE COURT:** Okay, yes, attorney one back. You want  
23 to turn it on and see if we have --

24           **(Whispers and voices heard)**

25           **THE COURT:** Okay, I don't. Let's see. Okay.

1 Does Mr. Bebel -- is he here? Does he want to sit in  
2 the jury box too?

3 **MR. KENNEDY:** Your Honor, Kirk Kennedy. Mr. Bebel is  
4 on his way, but we can proceed in his absence.

5 **THE COURT:** All right. And okay, that's  
6 Mr. Westheimer?

7 **MR. WESTHEIMER:** I'm Alan Westheimer.

8 **THE COURT:** And Mr. --

9 **MR. UNIDENTIFIED:** Berenblut.

10 **MR. UNIDENTIFIED:** Berenblut.

11 **THE COURT:** -- Berenblut. Okay. All right, does  
12 that help you? You have your own personal little screens?

13 **MR. UNIDENTIFIED:** Yes, ma'am, like an airplane.

14 **THE COURT:** Yeah, there you go. All right.

15 **MR. ZIMMERMANN:** May it please the Court? Your  
16 Honor, other than the experts, we don't know who the witnesses  
17 may be; we would like to invoke the rule prior to opening  
18 statements.

19 **THE COURT:** Okay. Has anybody been informed that  
20 they're going to be a witness in this case for any party?

21 **MR. UNIDENTIFIED:** Yes.

22 **(Voices and whispers heard)**

23 **MR. CHASNOFF:** You have --

24 **THE COURT:** If you have, you need to step outside.

25 It doesn't matter whether you were officially subpoenaed or you

1 were just invited to come, you need to step outside. That's  
2 what invoking the rule means.

3 (Voices and whispers heard)

4 MR. CHASNOFF: Your Honor?

5 THE COURT: Uh-huh.

6 MR. CHASNOFF: Mr. Sewell -- we anticipate Mr. Sewell  
7 testifying. He is, however, a party representative, so may he  
8 stay and --

9 (Voices and whispers heard)

10 THE COURT: Yes. Yes, party representatives may  
11 stay. Do you want somebody sitting at your table too? I can  
12 get you another chair too.

13 MR. CHASNOFF: Actually, this is fine. Mr. Sewell's  
14 fine. That is close enough.

15 THE COURT: Okay. You may proceed.

16 MR. CHASNOFF: Thank you, your Honor. And the court  
17 reporter will let me know if my voice drops. Throw something  
18 at me.

19 In December of 2008, Stanford International Bank,  
20 which I'll call SIB, in documents that were prepared and  
21 approved by these Plaintiffs, represented to investors and  
22 regulators that the bank had more than \$8.1 billion in total  
23 assets. Two months later, the SEC initiated proceedings in the  
24 Northern District of Texas against Mr. Stanford, Mr. Davis,  
25 Ms. Holt, and later added Mr. Lopez and Mr. Kuhrt, alleging the

1 massive Ponzi scheme that you're aware of.

2           After reviewing the sworn submissions of the SEC,  
3 Judge O'Connor froze the assets; found good cause to believe  
4 that the various Stanford entities which Mr. Stanford  
5 controlled were part of a massive fraud; and so he appointed a  
6 receiver, as you are aware. And one of the chief  
7 responsibilities of the receiver was to marshal this supposed  
8 \$8.1 billion in assets; and we will be showing you their filings  
9 and materials in which they claimed to have that \$8.1 billion.

10           The receiver's job, in part, was to pull together  
11 those assets. Today, in spite of Herculean efforts, as Ms. Van  
12 -- Ms. Van Tassel has reported, the receiver has recovered less  
13 than \$1 billion of those assets. This case is in part the  
14 story of what happened to those missing billions of dollars.

15           What -- the James Davis plea makes it clear that the  
16 disappearance of that money was a crime. The evidence we will  
17 present and what we will demonstrate will show the roles of  
18 each of the Plaintiffs individually played in the theft,  
19 overstatement of value and money laundering of that massive  
20 amount of money. And we are cognizant of the Court's direction  
21 that the evidence must point to each Plaintiff individually.

22           The Plaintiffs were part of the upper management. Of  
23 course, Mr. Stanford was the upper management, the sole  
24 shareholder of something called the Stanford Financial Group,  
25 which was a global network of affiliated companies. One of the

1 defenses that has been raised is that -- what -- certain of the  
2 Plaintiffs worked for different companies; and, therefore, we  
3 weren't responsible for what Stanford International Bank did.

4 But what is before you as Exhibit 41, which was one  
5 of their statements -- disclosures. And as it says, Stanford  
6 International Bank is a member of the Stanford Financial Group,  
7 a global network of affiliated companies; although independent,  
8 each company works in cooperation with other Stanford  
9 affiliates to provide coordinated wealth-management programs  
10 for nearly 40,000 investors on six continents. So the --

11 **THE COURT:** What year brochure is this, and did it  
12 change over time? I've seen this brochure somewhere?

13 **MR. CHASNOFF:** Yes, I -- my --

14 **THE COURT:** Let me just tell you that you cite to a  
15 2008 version, but I think I've seen -- we've pulled -- I guess  
16 I should make this disclosure. We either were supplied by you  
17 or we pulled off the Northern District of Texas website, a  
18 publically filed document, which was a Van Tassel report, from  
19 May of 2010, which had the 2008 brochure. But you have  
20 supplied us, I think, with the '7. We did not notice any  
21 differences.

22 **MR. CHASNOFF:** As far as I know, this representation,  
23 over the years -- and we will put in and identify the exhibits  
24 -- did not change.

25 **THE COURT:** Okay. And you can tell the date -- for

1 your people -- towards the very back, they have dates on there  
2 that --

3 **MR. CHASNOFF:** Okay. And Ms. Grayland (phonetic) --  
4 if you don't mind, I'll go on and then she'll --

5 **THE COURT:** Please. And you don't need to -- I just  
6 am sort of lodging the question.

7 **MR. CHASNOFF:** Okay. Okay. So, what the evidence  
8 will show is that even though individual Plaintiffs may have  
9 been on the payroll of a different entity, they were doing work  
10 for Stanford International Bank.

11 Now -- and what the evidence is going to show is that  
12 the fraud was centered -- the money was raised through CDs.  
13 And all of this -- we put up this which is Exhibit 36. This is  
14 a consistent statement, but they had CDs that paid a higher  
15 rate of return. A constant way of bringing money in was to say  
16 we pay more money on a CD, one or two percent, than any of our  
17 other competitors.

18 The CDs were marketed in two ways. First, through  
19 false misleading annual statements, financial statements,  
20 marketing materials and disclosure statements, which we will  
21 put into evidence. Which the evidence will show each of the  
22 Plaintiffs participated in the preparation of, or in many  
23 cases, in the case of Mr. Stanford, he signed.

24 Second, through financial advisors. Mr. Stanford and  
25 others trained them to disseminate false information which they



1 didn't know was false, and -- as far as we are able to tell --  
2 but false information concerning what the bank was and its  
3 portfolio through those annual reports.

4 Now, it's important to focus on and understand how  
5 they -- what they said that was false. And so back to Exhibit  
6 41, which I think Ms. Grayland's looking up.

7 **MS. UNIDENTIFIED:** 2003.

8 **MR. CHASNOFF:** What's that?

9 **MS. UNIDENTIFIED:** It's a 2003.

10 **MR. CHASNOFF:** Exhibit 41, which we showed, is a 2003  
11 brochure; and it continued through the years. And among the  
12 things -- I call it a brochure. Is that an annual statement?  
13 It's one of the marketing brochures. And this was a, also out  
14 of Exhibit 41, one of their classis statements that really  
15 summarizes what they were telling people.

16 "Liquidity: We focus on maintaining the highest  
17 degree of liquidity as a protective factor for  
18 depositors. The bank's assets are invested in a  
19 well-diversified portfolio of highly-marketable  
20 securities, issued by stable governments, strong  
21 multinational companies, and major international  
22 banks."

23 And as you will see, the evidence will show what was  
24 presented was all of these marketable -- highly-marketable  
25 assets were supposedly managed by Ms. Holt -- and I understand

1 she's out, but her role in integral here -- and a global  
2 network of money managers that she supposedly supervised on a  
3 daily basis. Both the description of what their assets were  
4 invested in and what Ms. Holt's role was were false.

5 In fact, more than 80 percent of the bank's assets  
6 were not in the kind of deposits that are described in the  
7 brochure. Rather, they were -- and they were not monitored by  
8 Holt, they were separated out and consisted of unsecured  
9 personal loans to Mr. Stanford and investments in companies a  
10 hundred percent owned by Mr. Stanford. Those companies were  
11 not securities at all. Certainly the loans weren't because  
12 they were unsecured personal loans, and they weren't -- these  
13 other companies weren't securities, much less liquid and highly  
14 marketable.

15 And as I indicated before, what SIB did was to lure  
16 purchasers of CDs by offering these higher interest rates. And  
17 what they said, we can pay higher interest rates because we  
18 have -- we're smarter than everybody else and we manage these  
19 conservative assets in a way that other people haven't figured  
20 out.

21 And this is a compendium of what they say. And if  
22 you look through the annual reports, the dates at the top are  
23 what's pulled from different annual reports, which will be in  
24 evidence; and they show their assets growing astronomically,  
25 the customer deposits growing, their profits growing, and

1 shareholders' equity growing, supposedly by -- the deposits and  
2 assets grew by \$5 billion during this time.

3 And they also talked about how their portfolio  
4 yielded double -- double-digit growth. This is Exhibit 52  
5 which we'll offer into evidence.

6 **THE COURT:** What was the prior exhibit?

7 **MR. CHASNOFF:** The number, your Honor, was -- this is  
8 a demonstrative chart that's a compilation. We can mark it  
9 later and make it an exhibit. But it is pulled from documents  
10 which will be in evidence and we will team mark that.

11 And for the Court's information, and the team's  
12 information, we should mark on this chart, which each  
13 exhibit --

14 **MR. LANE:** It was in our findings of fact.

15 **MR. CHASNOFF:** And this chart was also in our  
16 findings of fact.

17 **THE COURT:** Right.

18 **MR. CHASNOFF:** Okay.

19 **THE COURT:** But I wondered where it was from.

20 **MR. CHASNOFF:** Okay.

21 **THE COURT:** It says "data from" -- okay, anyway you  
22 get the point.

23 **MR. CHASNOFF:** Yeah, and we will tract that for you.

24 All right, the report -- so they put this information  
25 out. We'll be able to demonstrate, in part with

1 Mr. Berenblut's assistance -- and I do believe that when you  
2 see what we're going to have him focus on, you will find him  
3 useful, your Honor.

4 **THE COURT:** Yeah. I mean, he could serve as an  
5 accountant.

6 **MR. CHASNOFF:** And, your Honor, we -- what you'll  
7 find is that we ask him -- he had a different task than Ms. Van  
8 Tassel. And you'll -- I think you'll see that it melds  
9 together and provides useful information too.

10 **THE COURT:** But -- that's fine. I mean, he pointed  
11 out that he wasn't aware he was going to have to write a  
12 report. Nobody was. Somehow something I wrote, did or said  
13 indicated that I wanted reports, which I did. So thank you all  
14 for scurrying around. But that's part of why I don't feel  
15 comfortable striking those experts.

16 **MR. CHASNOFF:** If they --

17 **THE COURT:** Go ahead.

18 **MR. CHASNOFF:** I'm sorry. In any case, we'll show  
19 the false representations, we're going to show that people  
20 relied upon. One of the witnesses, we anticipate our first  
21 witness, will be Dr. Robert Conte, C-O-N-T-E, who will testify  
22 that he relied on the representation he received in the annual  
23 reports; marketing brochures; and from his financial advisors  
24 about the liquidity and security of the investments. And he  
25 relied upon that in deciding not only to make his initial

1 investment, but when CDs matured, to roll over his investments.

2 The Court's also going to hear testimony from  
3 Stanford investor Kelly Dehay. Mr. Dehay was here and he's one  
4 of those who left when the rule was invoked, who will testify  
5 that he viewed these representations as important; and that he  
6 invested based upon these representations.

7 Unfortunately for Mr. Dehay and Dr. Conte and  
8 thousands of other investors, the composition, strength,  
9 stability and liquidity of the portfolio was nothing like what  
10 they led investors to believe.

11 I've briefly mentioned, and you've seen from the  
12 papers, that the portfolio was divided into three tiers. Tier  
13 one was cash and cash equivalents. Tier two was investments  
14 with outside portfolio managers, and tier three was what they  
15 called other assets. In there were \$1.7 billion worth of  
16 unsecured loans to Mr. Stanford, among other things, and was  
17 directed, managed and monitored exclusively by Mr. Stanford and  
18 Mr. Davis, not by Ms. Holt and her global team of advisors, as  
19 was represented to investors and the regulators.

20 Stanford routinely misappropriated those tier-three  
21 assets for his own personal use through these undisclosed  
22 personal loans and related-party transactions. The loans, we  
23 will show you, were supposed to have been disclosed SIB's  
24 financial statements to Antigua regulators.

25 Antigua, also, we will demonstrate, had a limitation

1 that no loans to shareholders amounted to more than five  
2 percent of assets. The loans to Mr. Stanford far exceeded the  
3 five percent and were not disclosed.

4 **THE COURT:** Say that part again.

5 **MR. CHASNOFF:** The Antiguan regulations --

6 **THE COURT:** Right.

7 **MR. CHASNOFF:** -- allowed loans to shareholders of no  
8 more than five percent of assets. His loans -- well, if you  
9 talk about stated assets, it's -- I'm doing this in my head --  
10 20 percent. Of real assets, it was far more than that because  
11 they didn't have the assets they said they had. Talking about  
12 the loans, they -- what did they represent to investors about  
13 loans? This is Exhibit 33, and it's from the 2005 annual  
14 statement as you can see in the upper left, but it's -- this is  
15 another that is consistent throughout.

16 Stanford International Bank does not expose its  
17 clients to the risk associated with commercial loans. The  
18 bank's only form of lending is done on a cash-secured basis  
19 solely to existing clients. Loans and advances to clients are  
20 permitted up to 80 percent of deposits, et cetera. That  
21 deposit serves as a guarantee to the loan; and, therefore, no  
22 addition provision is needed to support a potential loss. The  
23 antithesis of unsecured loans being made, and we will show you  
24 the promissory notes; and we'll show you the books and records  
25 where these were done. And Ms. Van Tassel, in her reports,

1 traced those loans out.

2 Now, Mr. Kuhrt and Mr. Lopez, they were responsible  
3 for the preparation of the financial reports that concealed the  
4 loans. And the way they concealed them on the books was to  
5 call them (quote) "financial assets at fair value."

6 Just as problematic for investors as Stanford's  
7 misappropriation of funds, was the fact that the purported  
8 investment returns were completely fictitious. They were made  
9 up. This is a -- Exhibit 52, we've looked at this before, a  
10 supposed 10-year investment portfolio returns. This would have  
11 been in 2005 because it tracks it through 2004. One of the  
12 interesting little things, they got lazy one year; and when  
13 they made up the numbers, the box around -- they -- these are  
14 percentages, so this is what, to a thousand, then you go to  
15 15.71 percent. Supposedly in two years it was precisely the  
16 same on this huge portfolio.

17 Mr. Berenblut, who's a certified fraud examiner, will  
18 explain to the Court that this investment return could not have  
19 been generated even by a legitimate portfolio in the real  
20 world, much less the sort of bizarre portfolio which you'll  
21 hear about.

22 What the evidence is going to show is that the  
23 investment returns were simply made up and supported by  
24 falsified financial statements prepared by Mr. Kuhrt and Lopez.  
25 And I'm going to go through and explain this. And this is one

1 of the things Mr. Berenblut's going to because you have to  
2 track through the accounting to show how they were doing this.  
3 And we're going to ask Mr. Berenblut to --

4 **THE COURT:** And has he done that himself, personally?

5 **MR. CHASNOFF:** Yes.

6 **THE COURT:** Based on the basic -- based on the  
7 primary documents?

8 **MR. CHASNOFF:** Yes, ma'am.

9 **THE COURT:** Okay.

10 **MR. CHASNOFF:** Yes, ma'am. And so we will be looking  
11 at spreadsheets and accounting records and then track how  
12 numbers moved through.

13 **THE COURT:** Okay.

14 **MR. CHASNOFF:** So, to give you an overview of it,  
15 though, what would happen is, they would make up a revenue  
16 number -- and I'll talk about this more in a minute -- that  
17 would -- to drive the return that was being sought. And then  
18 they would report the supposed -- the made-up revenue number to  
19 investors and to regulators.

20 **THE COURT:** The papers say something to the effect  
21 that Kuhrt and Lopez were using either projections or budgeted  
22 numbers to prepare a red book for Davis. Do you know anything  
23 about that?

24 **MR. CHASNOFF:** Yes, ma'am. And I'm going to do this  
25 without looking at my notes, because it's later in my notes,



1 but I'll explain --

2 **THE COURT:** Okay. I can't help myself.

3 **MR. CHASNOFF:** -- to your Honor how it's done.

4 What would happen is that Mr. Davis and Mr. Stanford  
5 would decide what they wanted to show to the outside world as  
6 the returns. Well, to get your returns, you need to look at  
7 your investment portfolio and what it returns, what its  
8 revenues were, minus your expenses. Expenses are set. But  
9 there are all sorts fees and so forth. So if you're going to  
10 have a certain ROI, return on investment, you have to figure  
11 what numbers you need; and you need it for two reasons. You  
12 need that return both to make their projection and to get the  
13 revenue number, the investment return they wanted to show the  
14 investors. But, two, the Antiguan regulations required them to  
15 have 105 percent capital. They have to have a five percent  
16 capital cushion.

17 And you'll see -- and I'm actually going to show you  
18 some of these as we go through, and you'll see more of them in  
19 the evidence -- where they would work backwards to get the  
20 numbers they needed to do that. And what was ultimate -- and  
21 just to give you a big picture and then I'll come back, -- this  
22 -- we'll show you this happened through the years, and there  
23 started being a bigger and bigger hole in the numbers.

24 And then when the regulatory authorities started  
25 coming in and it started collapsing, they compounded it by

1 creating more lies; making up assets; changing the books to  
2 make it look as if there were hard assets there. So I want to  
3 -- that's the broad scheme.

4 Now, I'd like to talk about what each of the three  
5 Plaintiffs' role was in this. Mr. Stanford. As you know, the  
6 sole shareholder of Stanford International Bank and the driving  
7 force behind the scheme. He kept secret the fact that he was  
8 -- had this separate portfolio that he and Damon (phonetic) --  
9 Davis were running. He kept secret the fact that -- of these  
10 personal loans. He participated in meetings with financial  
11 advisors where they were told -- made -- told false things to  
12 go off and repeat to their investors so that got passed on to  
13 them. Part of what this lie was the management by Laura Holt  
14 of the Holt Portfolio which didn't happen. She ultimately  
15 admitted that, by the time it all came crashing down, she was  
16 managing something like five percent of the portfolio.

17 It had gone from ten percent to five percent because  
18 as CD redemptions started coming in, they started having to  
19 liquidate hers to try to pay these redemptions. He was  
20 involved with Davis and -- Mr. Stanford was, in falsifying the  
21 financial statements, because they together would come up with  
22 the return they wanted to show. And then he would have  
23 meetings with big investors and make direct misrepresentations  
24 to them.

25 Mr. Stanford also signed the annual reports and the

1 so-called report of management in the annual reports that went  
2 out to investors and regulators. In it, he said he assumed  
3 responsibility for the (quote) "preparation, integrity and  
4 objectivity of the financial statements of the bank." But as  
5 we've said, and as the evidence is going to show, they were  
6 completely false.

7           Mr. Kuhrt and Mr. Lopez. I'm going to talk about  
8 them together because Mr. Lopez was Mr. Kuhrt's supervisor; and  
9 as the evidence is going to show, Mr. Kuhrt would work with  
10 Mr. Lopez. Mr. Kuhrt would do some of the day-to-day number  
11 crunching, getting approval by Mr. Lopez; it would go up to  
12 Davis, he would approve the false numbers; and it would go from  
13 there.

14           And one of the interesting pieces of evidence you  
15 will hear is that, in connection with retaining Mr. Westheimer  
16 as their expert, they have this issue, I guess, that they  
17 weren't going to testify so they had Mr. -- they told  
18 Mr. Westheimer, and then Mr. Westheimer says his -- his job, I  
19 guess, was to repeat their story without them having to  
20 testify. But in the course of that, we got what we view as  
21 some pretty important admissions from them; and that's why we  
22 wanted to call Mr. Westheimer, and we'll call Mr. Westheimer as  
23 a fact witness.

24           Part of what you'll learn is that Mr. Lopez was  
25 responsible for -- and I'll quote -- "overall supervision of

1 the accounting reports and budgetary processes" (end of quote)  
2 for the Stanford entities. He was also, as I said, a direct  
3 supervisor of Mr. Kuhrt. And Mr. Kuhrt worked --

4 **THE COURT:** Would you repeat what you just said about  
5 Lopez? What is his responsibility? This is what he -- this is  
6 what's in Westheimer's report?

7 **MR. LANE:** It's in his notes and --

8 **MR. CHASNOFF:** In his notes, yes.

9 **MR. LANE:** -- in his testimony.

10 **MR. CHASNOFF:** And we'll show documents that  
11 (quote) --

12 **THE COURT:** I didn't read the notes.

13 **MR. CHASNOFF:** -- "overall supervision of the  
14 accounting reports and budgeting processes" (end of quote) to  
15 the Stanford entities.

16 **THE COURT:** For the Stanford entities?

17 **MR. CHASNOFF:** Yes, ma'am.

18 So, Mr. Kuhrt would put together the initial drafts  
19 of the annual report numbers and --

20 **THE COURT:** Kuhrt or Lopez?

21 **MR. CHASNOFF:** Mr. Kuhrt would. Then it would go to  
22 Mr. Lopez, his boss, and then to Mr. Davis; and they would  
23 create and compile the financial statements for the annual  
24 reports and would prepare SIB's reports -- and I'm going to use  
25 a new term here -- to the Antiguan Financial Services

1 Regulatory Commission, which I'm going to call the FSRC, which  
2 was the Antiguan regulatory authority responsible for this --  
3 overseeing this bank.

4           What the evidence is going to show is each of these  
5 documents went first from Mr. Kuhrt to Mr. Lopez; and in them,  
6 they misstated the true composition of the assets. There are  
7 admissions that they knew it was wrong, that the numbers were  
8 wrong, but they have an excuse which I'll talk about in a  
9 moment, a claim excuse.

10           Many of these assets, by the way, part -- we'll talk  
11 about the hole that got created -- part of the hole that kept  
12 getting created in their numbers was a lot of these other  
13 Stanford business entities that they were pumping money into,  
14 just owned by Mr. Stanford that weren't marketable securities,  
15 were money losers. And so they'd have to take more money out  
16 to try to keep these other things going, from cricket teams to  
17 a variety of other stuff.

18           All right, so, if you -- we better take points in  
19 time. One point in time is June 30th, 2008. The internal  
20 records show that by June 30th, 2008, Mr. Stanford had  
21 misappropriated at least 1.7 billion in personal loans and  
22 another 1.8 billion in related-party transactions. Mr. Kuhrt  
23 and Mr. Lopez kept track of those personal loans and related-  
24 party transactions in a spreadsheet that Mr. Kuhrt created  
25 called -- and it's Exhibit 56. I know it's a little hard to

1 read, but --

2           **THE COURT:** Can you zoom? Probably not. Okay, for  
3 the future, if they're little things like that, and you have a  
4 small -- you have a hardcopy, we can put it on the Elmo and we  
5 can zoom in.

6           **MR. CHASNOFF:** Okay.

7           **THE COURT:** So just print the ones that are hard to  
8 read.

9           **MR. CHASNOFF:** Okay. We'll do that.

10           In any case, it's called Shareholder Funding  
11 Assumption of Debt and Notes Payable. It's Exhibit 56 in our  
12 exhibits. Part of what you'll learn from Mr. Westheimer's  
13 notes and his testimony is that Kuhrt and Lopez knew that these  
14 related-party transactions were not disclosed in the financial  
15 statements; the annual reports; or the FSRC reports. And they  
16 knew that that was a violation of international financial  
17 reporting statements. They knew that, and of the laws of  
18 Antigua, the United States, Texas. They admitted this to  
19 Mr. Westheimer.

20           They kept track of these loans at least as far back  
21 as 2005. They knew -- they admit they knew that they were  
22 supposed to be disclosed, but what they say is well we told  
23 Mr. Davis that these should be disclosed. Now we don't have  
24 any evidence that they said that, but that's what they say  
25 through Mr. Westheimer, and claims that this absolves them --

1 their claim is this absolves them of liability. But they never  
2 recorded the falsity of the statements nor have I seen an  
3 explanation as to why, after they admittedly knew at least as  
4 far back as 2005 that the numbers were false, they stayed with  
5 the Stanford entities another four years, continuing to  
6 generate the false reports which were given to regulators and  
7 to investors.

8           The fact is Mr. Kuhrt and Mr. Lopez helped  
9 Mr. Stanford conceal the unsecured personal loans because then  
10 what they would do with these numbers each year that they knew  
11 were false would characterize them on the financial statements,  
12 as I said, as financial assets at fair value. This wasn't the  
13 only thing that Mr. Kuhrt and Mr. Lopez were doing to help.

14           This is where we get to the false numbers. They  
15 helped to bring in the false numbers on the investment returns.  
16 So they're reporting false information to investors and  
17 regulators to cover the problems, but they're also helping to  
18 bring in more money by helping prepare the financial reports  
19 that are distributed with false numbers.

20           And it's probably obvious, but just to state it, the  
21 way this worked, CDs with the higher return, what they would  
22 say to investors is we can give you higher return because we  
23 have this investment portfolio. We're making a ton of money;  
24 we want -- we're taking your money from the CDs and putting  
25 them into these safe investments. They're liquid. You'll hear

1 terms like T1, T2, we can liquidate in one day or two days the  
2 portfolio and get you your money. Meanwhile, we're making a  
3 ton of money, because we're so smart; and we -- we'll pay you a  
4 higher return. So it was important to -- how high they -- of a  
5 return they needed.

6 Now, I already talked to you out of turn a little bit  
7 about how they were coming up with these budgeted numbers  
8 which, essentially, part of their excuse is well these were  
9 just budgeted numbers. When Mr. Berenblut helps us walk  
10 through the numbers -- a budget is a goal. What they would do  
11 after the end of the year is gave that a revenue results number  
12 that they needed to show -- I mean, a -- or rather, a return  
13 number, and then they would budget what revenue we had to have  
14 to get the return you want.

15 **THE COURT:** For the past year?

16 **MR. CHASNOFF:** For the past year. And you'll see in  
17 some specific emails where, in at least one instance, where we  
18 have the emails they went through this process. They had a  
19 computer program they eventually developed so they would go  
20 through and figure out -- okay, you tell us what investment  
21 return; and we'll tell you how much revenue you had, where they  
22 figured it all out.

23 And then there's an email that Mr. Kuhrt and  
24 Mr. Lopez are involved in where they say oops, we just realized  
25 we had another \$1.6 million in expense. Okay, here's the



1 increased revenue we need -- and you'll see it on the  
2 spreadsheet. The next day, the revenue goes up for the past  
3 month by exactly the amount of the expense so the return stays  
4 the same. And then those documents, we'll trace them through  
5 to show that those falsified numbers ended up in the annual  
6 reports and the disclosure statements.

7 And, you know, we'll show that -- I understand your  
8 ruling, I think I do, on Mr. Davis, that he conspired. I think  
9 it's our job to show with whom he conspired and if these folks  
10 are some of those that he conspired with, and we will show  
11 through the documents that that conspiracy with Mr. Davis on  
12 those numbers took place involving Mr. Kuhrt, Mr. Lopez and  
13 Mr. Stanford.

14 And --

15 **(Counsel confer)**

16 Okay. This is an example of -- this is Exhibit 148  
17 in our documents where -- and it's -- where there's a man named  
18 Mr. --

19 **MR. LANE:** Persuad.

20 **MR. CHASNOFF:** -- Persuad who sends an email to  
21 Mr. Kuhrt and says we need to make 19 million profits for  
22 December for 44 million for 2007 -- and you notice this is  
23 January of 2008 -- to be at five percent equity of the capital.  
24 That's the five percent requirement. Yes, let's make it --  
25 yes, 19 million would take us, Mr. Kuhrt says, to 5.05 percent

1 for a slight cushion, and then --

2 **MR. LANE:** That's Persuad.

3 **MR. CHASNOFF:** What's that?

4 **MR. LANE:** That's Persuad.

5 **MR. CHASNOFF:** Persuad. Okay, Mr. Persuad says to  
6 Mr. Kuhrt -- and you'll see that the numbers that show up are  
7 the ones they need for the slight cushion.

8 All right, and there are many more documents, and  
9 we'll track them through with the witness and with the actual  
10 documents.

11 The scheme went on for a number of years. But what  
12 happened was that the gap -- and the reason Ms. Van Tassel's  
13 been able to find -- and the receiver have been able to find so  
14 little, is that the gap is created by a compounded problem.  
15 One is, they're reporting on their books and records they're  
16 making these huge returns which they weren't making. In fact,  
17 they were losing money. And so -- and each year as you  
18 compound that return that you're not getting, the number gets  
19 higher of what you supposedly have. At the same time, they're  
20 draining money out the back door for loans and investments and  
21 losing propositions, so you get this ever-widening gap in the  
22 amount of money you have and the amount of money you're  
23 reporting to make.

24 The problem came to a head -- a combination of things  
25 -- 2007, Mr. Tidwell, who's a financial advisor and who will be

1 here to testify; and I'll talk about him more in a moment --  
2 became concerned about what was going on and he went to the  
3 SEC.

4 **THE COURT:** In 2007?

5 **MR. CHASNOFF:** Yes --

6 **MR. LANE:** He left in 2007 --

7 **MR. CHASNOFF:** Yeah.

8 **MR. LANE:** -- as of December, yeah.

9 **MR. CHASNOFF:** I think it was like December of 2007,  
10 and then very shortly thereafter went to the SEC. And as I  
11 said, Mr. Tidwell is -- was one of the gentlemen who stood up  
12 and got out. He was here; he will be one of our witnesses.

13 And then the other thing that happened is financial  
14 crisis comes along, and so people start redeeming more CDs  
15 because they need their money; and the flow of investor funds  
16 goes down.

17 **THE COURT:** Didn't the Stanford Financial Group or  
18 some company within it have an issue with the SEC in 2006?

19 **MR. CHASNOFF:** They --

20 **MR. ZIMMERMANN:** Excuse me, your Honor. I think I  
21 recognize a witness that may not have been here when the rule  
22 was invoked.

23 **THE COURT:** Oh, okay. If there are any witnesses  
24 that have -- or people who have been notified that they are  
25 likely to be called as witnesses, you need to step out of the

1 room. You cannot be in here. Is there anybody of that nature?

2 (Voices and whispers heard)

3 MR. CHASNOFF: That's Dr. Conte's attorney, not  
4 Dr. Conte.

5 THE COURT: Okay, fair enough. Thank you for telling  
6 us.

7 MR. CHASNOFF: I couldn't figure out who he was  
8 talking about. I'm sorry.

9 THE COURT: Okay, I had asked what the SEC --

10 MR. CHASNOFF: In 2007.

11 THE COURT: Okay, you can answer it later.

12 MR. CHASNOFF: It was actually in 2005 --

13 THE COURT: Five.

14 MR. CHASNOFF: -- that the SEC first did some  
15 looking. And they have continued, and then with Mr. Tidwell's  
16 assistance --

17 THE COURT: Yes, I understand.

18 MR. CHASNOFF: So, they're short of funds. People  
19 are redeeming. But also, although, obviously, press reports  
20 are hearsay, but what happened was the reports in the press,  
21 and what you'll see is investors started getting nervous, and  
22 so more money starts coming out. And they -- they want to do -  
23 - it's like in math, there's some -- something -- quantum  
24 physics there's a grand overall solution. I can't remember  
25 what the term is.

1           **MR. LANE:** Unified theory.

2           **MR. CHASNOFF:** Unified theory. They wanted to come  
3 up -- thank you, Mr. Lane.

4           They wanted to come up with a unified approach to  
5 solving all their problems. And now by 2008, they have a  
6 number of problems. He wants to invest -- inspire --

7           **THE COURT:** Well, it was also the economic crisis --  
8 I mean, it was overall.

9           **MR. CHASNOFF:** Yes. Yes. And so they want to  
10 inspire investor confidence to stop the outflow and maybe get  
11 more inflow. So Mr. Stanford announces -- and we'll show that  
12 he's making two capital infusions of his own money, supposedly,  
13 in the bank, totaling \$741 million.

14           Second, they decided -- and you'll see this evidence  
15 -- that they were going to create an account, a capital  
16 account, Mr. Stanford, in the bank. When I say "they," it  
17 included these Plaintiffs, the accounting folks. And that was  
18 going to be 759 million. So, all of a sudden he's going to put  
19 in all this capital, and they discover another capital account  
20 there with some millions. And so all of a sudden their capital  
21 goes up.

22           Second, he wanted at the same time to wipe out his  
23 \$1.7 billion of personal loans on the books because regulators  
24 are starting to look.

25           And third, not only did he want to eliminate those

1 transactions and pay for the capital, he wanted something that  
2 would make it look like he already had -- or pay for his  
3 supposed confusion. He wanted to replace it, the personal  
4 loans, with a supposed hard asset.

5 So what happened was -- and the evidence will show that  
6 Stanford, Davis, Kuhrt and Lopez conspired to develop a  
7 transaction that was going to -- the unified theory. It was  
8 going to solve all of this. And this is Exhibit 61, and this  
9 is an email from Mr. Kuhrt to Mr. Lopez on December 23rd, 2008.  
10 "Attached is the revised approach to the real estate deal."

11 **MR. LANE:** This is to Davis.

12 **MR. CHASNOFF:** I'm sorry.

13 **MS. UNIDENTIFIED:** Kuhrt to Davis.

14 **MR. LANE:** Kuhrt to Davis.

15 **MR. CHASNOFF:** I'm sorry. It's Kuhrt to Mr. Davis.

16 I not only have gray hair, I have bifocals. Sometimes it  
17 affects that.

18 "The revised approach to the real estate deal, GL --  
19 that's Mr. Lopez, Gil Lopez -- will send you the password to  
20 open the file. I've discussed this with him. You can call me  
21 to discuss when time permits. Please call my cell."

22 And then -- all right -- you see at virtually the  
23 same time Mr. Lopez sends an email to Mr. Davis with one word  
24 on it, Pelican.

25 And one of the things this sort of obscure email --

1 and you will see that Mr. Lopez at times was -- tried to be  
2 clever, because he would have this obscure email that doesn't  
3 say anything but Pelican -- what you're going to see from the  
4 evidence is the word Pelican does indeed -- we have the  
5 original file -- open the scheme up.

6 **THE COURT:** You mean in the computer?

7 **MR. CHASNOFF:** In the computer, yes.

8 **MR. LANE:** That's the password.

9 **MR. CHASNOFF:** It's a password to open it up.

10 **THE COURT:** All right.

11 **MR. CHASNOFF:** I'll -- so the transaction -- and I  
12 want to describe briefly -- and once again, this is going to be  
13 something that Mr. Berenblut helps us show how it was supposed  
14 to work by taking us through -- was an elaborate related-party  
15 transaction which was designed to convert a \$63 1/2 million  
16 purchase of real estate into more than \$3 billion on the  
17 balance sheet.

18 So in roughly June of 2008, SIB signs agreements to  
19 acquire two holding companies, Cukfield, C-U-K-F-I-E-L-D,  
20 Investments, which own Pelican Island; and, therefore, the  
21 Pelican password; and Crayford, Limited, that owned real estate  
22 in Antigua for a combined \$63.5 million.

23 In this next exhibit -- there we go -- once again,  
24 real evidence. This is Exhibit 63, is the secret Pelican  
25 diagram. What's clear, as you track through all these related-

1 party transactions, is you start off with Stanford  
2 International Bank owning it. And after you go through all  
3 these transactions, Stanford International Bank owns it again.  
4 But in the process, and you see the numbers in there, they buy  
5 and sell to each other and pump the value up; and it's much  
6 like the scheme in -- what was the banker in --

7 **MR. LANE:** Oh, Keating (phonetic) and (indiscernible)  
8 **(Voices overlap)**

9 **MR. CHASNOFF:** It's much like a Keating deal. It's  
10 the same deal. Now -- so this is what Kuhrt and Lopez  
11 distribute to Davis. The ultimate value was going to be  
12 something like 3.174 billion in assets. But even a bogus set  
13 of land flips requires the lawyers to get involved and prepare  
14 the papers. And one of the things you'll see is that by the  
15 time they got to doing the papers, they had some shell  
16 companies. The shell companies had been used for other things,  
17 and so they didn't actually get the papers done but they needed  
18 the hole filled. And so on June 30th, 2008, they put the  
19 higher number on the books as if the transactions have taken  
20 place. So they've got this bogus numbers. They don't even  
21 have the internal flips done to put on the books. Mr. Kuhrt  
22 puts it on the books.

23 And adding to this whole farce was the fact that one  
24 of the underlying acquisitions, the one of Cukfield, didn't  
25 even close until at least 30 days after June 30th. So now



1 they've got on their books a vastly-inflated value for an asset  
2 they don't own.

3           Looking back at it, Mr. Kuhrt and Mr. Lopez clearly  
4 realized this is hard to complain in the current context so  
5 what they now say through their expert is that we told  
6 Mr. Davis we needed to have a -- an appraisal and legal advice  
7 before we could put the new number on the books. But they're  
8 the -- but Mr. Kuhrt and Mr. Lopez put it on the books even  
9 though there was no appraisal and no opinion from a lawyer that  
10 it was appropriate.

11           And you'll see the email where Mr. Kuhrt, working  
12 under Mr. Lopez, also advised a member of SIB's accounting team  
13 to put the \$741 million supposed capital infusion from  
14 Mr. Stanford, which didn't take place, on the books.

15           And then, this is in the height of all the problems,  
16 we get this 2008 -- December 2008, what's called a monthly  
17 report. This is the only one they ever put out. Mr. Stanford  
18 puts it out. And sure enough it says, you know, although our  
19 earnings are down. It talks about contribution of 541 million  
20 on November 28th, 2008. Never happened. And the rest of the  
21 statements aren't correct in here either. But this is  
22 distributed to shareholders.

23           Mr. Lane cleverly passed me a note to say there was  
24 another monthly report. I said this was the only one.

25           **MR. LANE:** No, no, no.

1           **MR. CHASNOFF:** Okay.

2           **THE COURT:** It was all over the papers. There was  
3 only one.

4           **MR. LANE:** There's only one.

5           **MR. CHASNOFF:** Only one, okay.

6           **THE COURT:** We know there's only one.

7           **MR. CHASNOFF:** Mr. Lane, you can go sit in the back  
8 of the room now.

9           **THE COURT:** At least I don't - but you -- you said it  
10 a lot of time.

11           **MR. CHASNOFF:** And do not pass me any more notes.

12           All right, so we've got that monthly report. Now, in  
13 spite of this, it didn't work. The scheme's over. The house  
14 of cards is coming down. So SEC wants to take depositions. So  
15 -- I told you about the press reporting it. In February of  
16 2009, Mr. Stanford issued a Dear Client letter where he  
17 repeated the lies about --

18           **THE COURT:** When was that?

19           **MR. CHASNOFF:** February 11th, 2009.

20           **THE COURT:** This was right before the end?

21           **MR. CHASNOFF:** Right before the end, yes. Then we  
22 get, late 2008 or early 2009, the SEC requests documents from  
23 SIB. So then Mr. Stanford, Mr. Davis, and another name,  
24 Mr. Juan Rodriguez-Tolentino, who was SIB's president; and then  
25 SIB's outside counsel who was at Proskauer (phonetic), a

1 gentleman named Thomas Sjoblom -- and all of these people have,  
2 in our pretrial order, are people who have taken the Fifth,  
3 including Mr. Sjoblom -- decided that Holt and Rodriguez would  
4 be the ones to testify before the SEC.

5           So in late January of 2009, this is Exhibit 76,  
6 Mr. Sjoblom, the -- Sjoblom, the Proskauer lawyer, advised  
7 this. It's talking about what they're going to have to do.

8           "We're going to have to provide positive proof that  
9 investor funds are invested as and where we say they  
10 are. We need to account for the full amount stated  
11 in the financial statements related to the CDs. E.g.,  
12 if we say there's 8.2 billion attributed to the CDs,  
13 we have to account for the full 8.2 billion. We will  
14 need to address all three tiers, not just tier one  
15 and two. Who are the money portfolio managers?  
16 Where are they located?"

17           And then that same email goes on: "Juan," that's  
18 Mr. Rodriguez, and "Laura," that's Ms. Holt,

19           "If you would like to discuss any of these, please do  
20 not hesitate to contact me."

21           **THE COURT:** What exhibit?

22           **MR. CHASNOFF:** This is the same exhibit, your Honor,  
23 76. This is just the second page of it.

24           "I know this is not a pleasant task and highly  
25 unfair; however, Tidwell and others have thrown down

1           the gauntlet. So we need to rise to the occasion. I  
2           know we can and must. Our livelihood depends on it."

3           Mr. Tidwell will be -- as I said, will be here to  
4   testify. He was -- he will testify he was a financial advisor  
5   and left in late 2007; went to the SEC. He -- among his  
6   testimony will be that he was fed by Mr. Stanford false  
7   information which he then, not knowing it was false, passed on  
8   to his customers, his clients, to get them to invest money.  
9   And also that he relied on the materials that we -- that -- the  
10   numbers that went into the disclosure statements, the annual  
11   reports and so forth, and passed those on to his investors, and  
12   that they relied upon them to decide and make the investments.

13           So, Mr. Stanford, Mr. Kuhrt and Mr. Lopez knew they  
14   were going to have to account. As you saw from the email from  
15   Mr. Sjoblom, they were going to have to account for the full  
16   8.2 billion. So you'll see a list where they start compiling  
17   everything they've got to try to come up with this number. And  
18   what becomes clear is not even the \$3 billion bogus transaction  
19   was enough to make up the number. They were still short.

20           So Mr. Berenblut, another thing he will do, is take  
21   you through one of the things they did. You will see that they  
22   had some investments in some securities and some companies.  
23   And so all of a sudden they show up on their books with the  
24   supposed value of their -- of Stanford's partial investment,  
25   partial ownership in them, exceeding the total market cap of

1 those companies. I don't have any exact numbers. So they  
2 would say our investment in that company is worth \$350 million,  
3 when in fact, the market capital in the company was 180  
4 million. And so they used that also to pump up the numbers.  
5 And once again, that was Mr. Kurt and Lopez involved in that  
6 process.

7 The process goes on and then about February 3rd,  
8 2009, Mr. Holt (sic); Mr. Stanford; Mr. Davis; Mr. Sjoblom, the  
9 outside counsel; Mr. Rodriguez, -- their general counsel was a  
10 man named Mauricio Avarado -- all these people, once again,  
11 taking the Fifth Amendment.

12 Their chief operating officer, a woman named Lena  
13 Stinson -- I call that to your attention because I'm going to  
14 show you an email from her in a second -- and their -- and the  
15 president of SGC, Dave Bogar, all gathered in Miami to prepare  
16 Ms. Holt and Mr. Rodriguez for their SEC testimony.

17 First thing that happens in that meeting is that  
18 Ms. Holt disclosed to the group, well I don't really manage all  
19 the assets, I only manager tier three. And at that point,  
20 there's 350 --

21 **MS. UNIDENTIFIED:** Tier two.

22 **MR. CHASNOFF:** I mean tier two, I'm sorry. Thank  
23 you. Tier two, and that's only 350 million, less than five  
24 percent of the assets.

25 Mr. Davis then reveals to the group his pie chart and

1 -- on this one, I would apologize, it's -- this is the best  
2 copy we've been able to come up with. And this pie chart shows  
3 their investments.

4           One of the interesting things you'll see is they --  
5 their earlier drafts of this, when they're working with it; and  
6 there's a big chunk of it that had next to it "amount needed,"  
7 which was the hole they needed to fill. But you'll see on here  
8 they show private equity real estate on that lower left-hand  
9 corner, 50 percent of their assets. Notes receivable, and the  
10 only notes receivable on the right-hand side are to  
11 Mr. Stanford, 29.4 percent.

12           Of course, remember the first exhibit I showed where  
13 they supposedly had -- their assets were liquid, highly  
14 marketable securities. This is what they have. And that 50  
15 percent, if you look at tier three, is 6.3 billion of the 50  
16 percent; it comes out to about that 3.1 created number.

17           Well, as I said, one of the people there was  
18 Mr. Mauricio Avarado, the former general counsel, and the --  
19 that same day Mr. Avarado sends an email to Lena Stinson, who I  
20 mentioned; and I'll show you an email from her in a second. He  
21 says,  
22 "As you know, the two holding companies that ultimately own  
23 Pelican and Guyana Island Properties were acquired directly by  
24 Stanford International Bank last year for consideration of 17.5  
25 and 68 million."

1 He's off a little bit on his numbers.

2 "Thus while I'm not an accountant or a finance  
3 person, unless you were referring to other real  
4 estate holdings of which of that I do not know" --  
5 And Mr. Avarado is very senior, --

6 "I don't understand how it's possible that some  
7 acquisitions be considered capital contributions or  
8 be valued over \$2 billion when they were acquired to  
9 start with by -- as IBL for a much lower  
10 consideration."

11 Obviously, right to the point we will be making as  
12 well. Then looking at Exhibit 83 -- oh, this is to  
13 Lena Stinson, another --

14 **(Counsel confer)**

15 **MR. CHASNOFF:** The part we've pulled out is an email.  
16 It's -- you can't see -- you'll see it on the actual exhibit.  
17 The language I've got here is on this chain of emails, and it's  
18 what Ms. Stinson said to Mr. Stanford. But she talks about,

19 "As you know, I was first made aware of the issues  
20 regarding the accuracy of the -- SIBL financial  
21 statements, disclosure document, as well as the  
22 liquidity issue of Stanford International Bank at the  
23 meeting last week in Miami."

24 And that's the one that I just told you about.

25 "Over the past week, I have expressed to you and

1           counsel for the company concerns and suggestions for  
2           actions I believe the company, Stanford Group Company  
3           and Stanford International Bank should take."

4           And then she goes through a series of actions,  
5           disclosing to the SEC that the financial statements must be  
6           revised to reflect the related-party transaction and disclosure  
7           document. That SIBL should contact its regulator and disclose  
8           its need to revise. Number three,

9           "The current SIBL financial statement should not be  
10          used and should be immediately removed from offices  
11          worldwide. The deposits recently received as of  
12          February 6th, 2009, approximately five million,  
13          should be returned; and SIBL should immediately stop  
14          acquiring deposits worldwide until the financial  
15          statements have been revised."

16          And then you see in the last sentence,

17          "If, Allen," --

18          And that's Mr. Stanford.

19          -- "if this does not happen, I will have no choice  
20          but to tender my resignation and report to the SEC  
21          the issues I believe exist."

22          We have another note that relates to that leak. Now,  
23          Mr. Sjoblom -- these -- there are attorneys' notes, your Honor;  
24          and you mentioned this earlier, concerns about attorneys'  
25          notes. The owner of the privilege for this is the receiver.



1 The receiver --

2           **THE COURT:** I just said note. I didn't know which  
3 notes that fellow had looked at, and there was no way to know.

4           **MR. CHASNOFF:** Okay. And the receiver has not  
5 expressed a concern about the privilege; in fact, has made the  
6 documents available. So --

7           **THE COURT:** Okay.

8           **MR. CHASNOFF:** -- if there was a privilege that he  
9 owned, he's now waived it.

10           **THE COURT:** I was referring to it in Mr. Lehrer's  
11 report because it was undefined. But I appreciate the  
12 explanation. So the receiver has basically waived the  
13 privilege?

14           **MR. CHASNOFF:** Yes, your Honor. Now, there is a  
15 better document than this Exhibit 194, but we got a late  
16 objection to Mr. Sjoblom's -- a letter he wrote that explains  
17 this even more fully, and we didn't want to put it up --

18           **THE COURT:** Until --

19           **MR. CHASNOFF:** -- till that was out there. And some  
20 of the -- and I will say, some of the Plaintiffs haven't  
21 objected to even that. Just one of them did, and so we have  
22 this interesting situation where it at least should be  
23 admissible.

24           **THE COURT:** Well I'll rule..

25           **MR. CHASNOFF:** Okay. But this is Mr. Sjoblom.

1 "I called Mauricio," --

2 And that's Avarado, the general counsel.

3 -- "to report what I knew about the false bank  
4 financial statements. I told him I had an obligation  
5 to report this information to him as CLO, to  
6 discharge my obligations to the company. Mauricio  
7 asked me how the external auditors missed this. I  
8 explained, as Jim Davis had told me, that the  
9 auditors only saw the papers given to them which  
10 would not reveal the computer model used to run the  
11 numbers."

12 The computer model we're talking about here is when  
13 Mr. Kuhrt and Lopez had to reverse engineer; they developed  
14 this computer program where they got -- okay, here's how much  
15 return they want to show, well how do we generate the numbers.  
16 And this is his explanation of that.

17 So, in spite of -- by the way, in spite of all these  
18 warnings and alarms from other people, Ms. Holt went ahead and  
19 gave her testimony to the SEC; and shortly thereafter the SEC  
20 accused her of falsely testifying. One week later -- and that  
21 was one week later, and the SEC brought several charges against  
22 Mr. Stanford, Ms. Holt, and later added Mr. Lopez and  
23 Mr. Kuhrt. And then there were filings for obstruction of  
24 justice against Mr. Stanford and Ms. Holt. And that brings us  
25 to where we are.

1           Now, I know that the Court is familiar with the  
2 policy and you've talked about it. There are a few things in  
3 the policy that we would like the Court to have in mind, and so  
4 I want to take a moment just to point those out.

5           **THE COURT:** Okay.

6           **MR. CHASNOFF:** One preliminary point, in some of the  
7 papers at times, we've had a reference to the -- what I'll call  
8 the old saw, that an insurance policy is construed if there's  
9 an ambiguity against the insurance company. You will hear that  
10 that's not always the case. You will hear testimony that what  
11 happens in the London market where this -- the Lloyd's market,  
12 is that in order to obtain insurance, someone wishing to  
13 purchase the insurance has to hire someone who is a London  
14 broker. That London broker is a representative and agent of  
15 the insured, not the insurer. And that's what happened here.

16           And in this case, what you will see is that the  
17 London broker, the agent of the insured, came with a draft  
18 policy form. So it was the agent of the insured who drafted  
19 the policy. And, in fact, we will show a document. I believe  
20 -- if memory serves, it's Exhibit 219, which has that on the  
21 cover. There's a form that says -- I'm not sure of the exact  
22 words -- drafted by Willis. Willis is the name of the broker.

23           And Mr. Sewell is here to testify that he's reviewed  
24 the file. There's nothing -- and at times, these policies get  
25 negotiated. The broker comes; they talk about particular

1 provisions. But in this case, what was proposed for the 2008  
2 policy on the money laundering was what was proposed by Willis.

3 Now, he was asked in his deposition back in history,  
4 was it possible that there were negotiations about this term.

5 **THE COURT:** Was this a -- was there a policy  
6 previously that had this clause in it?

7 **MR. CHASNOFF:** Yes, your Honor. The three previous  
8 years they had been insured, it's had the same language. What  
9 Mr. -- what's not in the underlying policy is whether five  
10 years before or 10 years before, there had been negotiations  
11 about -- among various insurers and brokers about this money  
12 laundering.

13 All we're saying is that what was proposed for the  
14 2008 policy was a form that Willis proposed. They could have  
15 asked to modify on behalf of the insured, the money-laundering  
16 language. They didn't do that.

17 **THE COURT:** But you don't know how that language got  
18 in there in the first place?

19 **MR. CHASNOFF:** Well --

20 **THE COURT:** Was that language prior to the three  
21 years earlier? In other words --

22 **MR. CHASNOFF:** Well, they didn't --

23 **THE COURT:** -- it was longstanding?

24 **MR. CHASNOFF:** I'm sorry. They didn't insure them  
25 prior to three years earlier. They may have existed in the

1 world out there in other policies. But the underwriting file  
2 we have only goes back a couple years because that's when they  
3 started insuring the Stanford entities.

4 **THE COURT:** Okay. But the question, then, is: what  
5 was the source of the language of this money-laundering  
6 provision in the first year? Who drafted it?

7 **MR. CHASNOFF:** It was in a Willis form.

8 **THE COURT:** It was?

9 **MR. CHASNOFF:** Yes.

10 **THE COURT:** So Willis -- to your knowledge, Willis  
11 brought that language to the Lloyd's people the first time the  
12 language was used --

13 **MR. CHASNOFF:** That is my --

14 **THE COURT:** -- by Lloyds?

15 **MR. CHASNOFF:** Yeah. Well --

16 **THE COURT:** But the first time it was used by Lloyd's  
17 was Stanford?

18 **MR. CHASNOFF:** Was Stanford, right. When that  
19 language was first used -- it could be 30 years old; it could  
20 be five years old. I don't have witnesses, but there's  
21 probably someone over in the London market who would know that  
22 because they remember when this stuff came up. All I can tell  
23 you is that this policy that they proposed is what they  
24 proposed for the 2008 year, and it had the language in it.  
25 And --

1           **THE COURT:** Okay. All I can say is it's turning out  
2 not to be such a bargain.

3           **(Laughter)**

4           **MR. CHASNOFF:** Thank you, your Honor.

5           **THE COURT:** This language is -- you know, I'll bet  
6 they wish they hadn't entered into it.

7           **MR. CHASNOFF:** I will call to your attention this  
8 issue of how you construe it. This is called a manuscript  
9 policy, as I'm sure you've run across sometimes.

10          **THE COURT:** No, I have not.

11          **MR. CHASNOFF:** Oh, it's a manuscript in the sense  
12 that it can be negotiated. It's not a -- it's not contract of  
13 adhesion that a consumer gets from an insurance company, take  
14 it or leave it.

15          **THE COURT:** Well, I'll let you put evidence on.  
16 That's evidentiary to me. I have no idea.

17          **MR. CHASNOFF:** Okay, right.

18          **THE COURT:** I have no idea. I have no idea.

19          **MR. CHASNOFF:** And I'll just point out that Judge  
20 Fitzwater in the Northern District has very recently, within  
21 the last six weeks, looked at precisely this issue of how you  
22 construe them when it's a manuscript policy.

23          **THE COURT:** Oh.

24          **MR. CHASNOFF:** I wanted his opinion on that, and I  
25 wouldn't be putting on a witness if that opinion weren't

1 (indiscernible). So... He came out and he said that it does not  
2 get construed against the insurer (indiscernible)

3 (Voices overlap)

4 THE COURT: I'd like a witness anyway. I would like  
5 a witness anyway; it can be brief.

6 MR. CHASNOFF: Oh, oh; yes, yes. We will need a  
7 witness to establish the facts of how this was negotiated. And  
8 I will tell you, although they -- in their papers now on file,  
9 they haven't argued ambiguity. I've asked the question: do I  
10 need to do this, and are they going to raise ambiguity. And  
11 what they've said -- and I respect it -- is "we don't know; we  
12 may." And so for that, I'm going to put the witness on. But  
13 right now, they have not argued ambiguity.

14 THE COURT: No.

15 MR. CHASNOFF: So it may be that we don't need it,  
16 but I'm going to put it on to protect my record.

17 THE COURT: Well, they may not argue it, but I may be  
18 interested anyway down the road. So...

19 MR. CHASNOFF: Okay. Thank you, your Honor.

20 All right. So talking about the actual policy, there  
21 are two claims under the policy. If you'll look at the  
22 language, it's not -- a claim is defined in terms of related  
23 actions. So in the -- although there are separate particulars  
24 in the SEC complaint and in the criminal complaint, you'll see  
25 that the definition of a claim is the whole thing. So there

1 are only two claims, the whole related allegations. And we can  
2 -- we will show you that as we look at the particular policy.

3 **THE COURT:** When you say "there are only two claims"  
4 in the policy, what do you mean? There were only two --

5 **MR. CHASNOFF:** That they've only made -- these  
6 Plaintiffs have made --

7 **THE COURT:** They've made two claims.

8 **MR. CHASNOFF:** -- two claims against us. And part of  
9 the evidence you will get from Mr. Sewell when he testifies is  
10 that we have over 200 other claimants that we are -- that we've  
11 paid in addition to the over \$15 million we've paid to these  
12 folks. We've paid three or \$4 million to other folks making  
13 other claims, and continue to pay people. And we have claims  
14 which are in dispute. But if they -- if the receiver, for  
15 example, is correct in his claims for coverage, that would  
16 exhaust the rest of the policy. Those claims are significantly  
17 large. So there are other claimants --

18 **THE COURT:** What's the receiver claiming?

19 **MR. CHASNOFF:** Financial advisers like Mr. Tidwell  
20 and others have been sued by their people --

21 **THE COURT:** Their customers.

22 **MR. CHASNOFF:** -- their customers. And those  
23 financial advisers have turned to this company for indemnity.  
24 And the company, i.e., the receiver, is seeking coverage under  
25 the policy for those indemnity claims.



1           **THE COURT:** For the cost of defense, or for actual  
2 indemnity --

3           **MR. CHASNOFF:** Right.

4           **THE COURT:** -- to the customers --

5           **MR. CHASNOFF:** Indemnity to the customers.

6           **THE COURT:** -- for money lost.

7           **MR. CHASNOFF:** Yeah. So, ultimately --

8           **THE COURT:** Okay. That's what I thought.

9           **MR. CHASNOFF:** -- the ultimate recipients of that  
10 money would be customers with money lost if they are correct  
11 and we are incorrect on coverage on those issues.

12           **THE COURT:** Okay.

13           **MR. CHASNOFF:** All right. So, as the Court knows --  
14 and I'm going to be very brief on this because your opinions  
15 have already reflected an understanding that there's a broad  
16 definition of money laundering. And that the key to money  
17 laundering is what constitutes criminal property. And I know  
18 that in at least one opinion or yours, and it may be two,  
19 you've reflected understanding of that.

20           So what I want to go to, and what I want to focus on,  
21 is the definition of criminal property, because we haven't  
22 talked about this before. But as criminal property is defined  
23 -- I don't have an exhibit number on this, but I know the  
24 policy's in evidence. It's at least 219 in the stack --

25           **THE COURT:** It's all right. That's fine, go ahead.

1           **MR. CHASNOFF:** Criminal property exists in two  
2 circumstances. One, it's property which constitutes the  
3 benefit obtained from or as a result in connection with  
4 criminal conduct or represents such a benefit, in whole or in  
5 part, whether directly or indirectly, which the directors are  
6 officers or any person or entity acting on the behalf knows or  
7 suspects or reasonably should known or suspected that it  
8 constitutes such a benefit.

9           A couple of points about this. So -- and there's  
10 another or that I don't underlined up here, which I should.  
11 The first or up there, it's a benefit obtained of or as a  
12 result or in connection with criminal conduct so that the  
13 insured engaged in criminal conduct, or it represents a benefit  
14 like that, which the director or officer knew or should have  
15 suspected was criminal property.

16           So as this definition of criminal property reads,  
17 it's not even necessary that the proposed insured obtained the  
18 benefit as a result or in connection with criminal conduct, but  
19 that they knew or suspected or should have known or should have  
20 suspected that the property that they were dealing with was  
21 such a benefit; that is, one obtained through criminal conduct.  
22 I adopt parts of that for the Court; in fact, closely before.  
23 But I -- I am -- I believe that is how it reads.

24           Now, we firmly believe that the evidence is going to  
25 show that, first of all, the investor funds are criminal

1 property because they were obtained by the misrepresentations,  
2 which we will go through; and that each of these Plaintiffs  
3 engaged in acts which constituted criminal conduct.

4 **THE COURT:** You say the investor funds constitute  
5 criminal property, right?

6 **MR. CHASNOFF:** Yes, your Honor. Because they were  
7 obtained through misrepresentation and fraud. And Antiguan,  
8 U.S. and Texas law -- of course, the definition of criminal  
9 conduct is an offense anywhere in the world. And then there  
10 was -- also it's criminal property because of the  
11 misrepresentations to the regulators about it.

12 Now, talking more specifically about Kuhrt or Lopez  
13 and what they told Mr. Westheimer, even if their conduct did  
14 not arise to criminal conduct -- which we believe that the  
15 evidence it does -- they say that they told Mr. Davis you can't  
16 report those numbers that those numbers are wrong, the faked  
17 numbers, but Mr. Davis kept reporting them so that was okay.  
18 And also they say, we told Mr. Davis you can't pump up the real  
19 estate without an appraisal and so forth. At the very least,  
20 they should have known, or should have suspected that it was  
21 criminal property. And that's why I point that out.

22 Now, I know you've received reams of paper. You're  
23 going to hear some interesting excuses from the Plaintiffs  
24 about what they did. Frankly, many of them -- and not even  
25 just the ones that talk about land-rustling -- don't pass the

1 red face test. But in the end, what you're going to see is the  
2 evidence is overwhelming that these Plaintiffs engaged in money  
3 laundering; and that there's no coverage under this policy.

4 Thank you.

5 **THE COURT:** You're saying Kuhrt and Lopez either knew  
6 or should have known, or suspected or should have suspected,  
7 that there was -- that the money from the CDs was being  
8 acquired through fraud, basically?

9 **MR. CHASNOFF:** Yes, at the least. Now, we also  
10 believe that what they did constitutes a criminal violation so  
11 they meet the first half of the definition because they were  
12 cooking the books. But even if it doesn't meet the first half,  
13 it sure meets the second half.

14 **THE COURT:** I understand.

15 **MR. CHASNOFF:** Thank you, your Honor.

16 **THE COURT:** Okay, who wants to go next?

17 **MR. ZIMMERMANN:** When are you going to give the court  
18 reporter a break, Judge? We've been going for about two hours.

19 **THE COURT:** Yeah, that's basically right. Okay,  
20 we'll have a break now. Let's -- 15 minutes. You're excused  
21 15 minutes.

22 **THE MARSHAL:** All rise.

23 **THE COURT:** Could I see counsel up here please, just  
24 one from each team? We'll do it over here.

25 **(Court confers with counsel off the record)**

1           **(Recess taken from 11:11 a.m. to 11:40 a.m.)**

2           **THE COURT:** Please be seated.

3           **MR. CHASNOFF:** Your Honor, may we approach for side  
4 bar?

5           **THE COURT:** Sure.

6           **(Court confers with Court Recorder)**

7           **(Begin bench conference at 11:41 a.m.)**

8           **MR. CHASNOFF:** Your Honor, as counsel, I'm asking you  
9 something that you have absolute power to do (indiscernible).  
10 One of the witnesses we subpoenaed was Dr. Conte who is here.  
11 He is represented by counsel, Mr. Levine (phonetic).

12           Mr. Levine --

13           **MR. UNIDENTIFIED:** Not our Levine, a different  
14 Levine.

15           **MR. CHASNOFF:** Not -- a different Levine.  
16 Mr. Levine --

17           **THE COURT:** (Indiscernible).

18           **MR. CHASNOFF:** -- says Dr. Conte doesn't want to be  
19 in the newspaper, et cetera, or if you're talking to him, he's  
20 asked if the Court can do something about keeping Dr. Conte's  
21 name out of the newspapers. I reminded him of the First  
22 Amendment, but --

23           **THE COURT:** They're open, public trials.

24           **MR. CHASNOFF:** And so I represented to him, since I  
25 had subpoenaed his client, that I would bring that to your

1 attention, you know. And he asked me to pass on that he would  
2 -- Mr. Levine would like to have an opportunity to speak with  
3 the Court about that.

4 **THE COURT:** Okay. Let's just have him up here.

5 **MR. CHASNOFF:** You want to do that now?

6 **THE COURT:** Uh-huh. Are you going to call him? If I  
7 were you, I'd call him sooner rather than later.

8 **MR. CHASNOFF:** Yeah. He's our first witness.

9 **THE COURT:** Okay.

10 **MR. CHASNOFF:** I'll ask Mr. Levine, if that's okay.

11 **THE COURT:** No, not you, Mr. Kunian -- you're welcome  
12 to come, but --

13 **MR. UNIDENTIFIED:** No, that's all right.

14 **THE COURT:** Hello. You want to state your name for  
15 me?

16 **MR. LABONE:** What's that?

17 **THE COURT:** Your name?

18 **MR. LABONE:** Alan Labone (phonetic). And --

19 **THE COURT:** We know each other, right?

20 **MR. LABONE:** We know each other.

21 **THE COURT:** Okay.

22 **MR. LABONE:** I'm anxious to talk about your boys,  
23 but --

24 **THE COURT:** Not on the record, thanks.

25 **MR. LABONE:** No. Dr. Conte was accosted by some

1 reporters yearning some notoriety --

2           **THE COURT:** Well --

3           **MR. LABONE:** -- in a good sense.

4           **THE COURT:** -- hopefully not notoriety but means.

5           **MR. LABONE:** In a good sense.

6           **THE COURT:** Uh-huh.

7           **MR. LABONE:** He's well known. And he's -- he doesn't  
8 want his name in the paper. If there's anything that you could  
9 do to encourage Woody (phonetic) -- whatever her name is from  
10 The Chronicle.

11           **THE COURT:** You know, I'm embarrassed to tell you, I  
12 don't even know who that person -- Woody.

13           **MR. LABONE:** You do know or don't?

14           **THE COURT:** Don't.

15           **MR. UNIDENTIFIED:** I think it's Mary --

16           **MR. LABONE:** I'm sorry?

17           **(Several voices overlapping)**

18           **THE COURT:** No, Mary Flood left. She's at some  
19 computer or online thing.

20           **MR. UNIDENTIFIED:** I think you're right.

21           **THE COURT:** I mean, obviously, you understand I can't  
22 kick people out of the courtroom. That's out of the question.

23           **MR. LABONE:** I do.

24           **THE COURT:** And I --

25           **MR. CHASNOFF:** Is there anything we can do?

1           **THE COURT:** There really isn't. Because what am I  
2 going to do, say to this reporter in open court or at the side  
3 bar, please don't publish this guy's name? I mean that in and  
4 of itself will be a story.

5           **MR. CHASNOFF:** Uh-huh.

6           **THE COURT:** So I'm sympathetic, but the sooner he  
7 gets on and off, the faster people are going to forget it  
8 because this is going to go on for a few days, so there's going  
9 to be a lot of other more interesting stuff. So -- at least I  
10 assume so.

11           **(Laughter)**

12           **THE COURT:** The accounting not --

13           **MR. UNIDENTIFIED:** Yeah, wait till you get to the  
14 next opening statement.

15           **THE COURT:** -- the accounting notwithstanding.

16           **MR. UNIDENTIFIED:** Well, maybe not my opening. But...

17           **THE COURT:** Well, anyway --

18           **MR. LABONE:** Well, I don't know what else to do.

19           **THE COURT:** Yeah. Point out the reporter to me, if  
20 you can just describe what he or she is wearing. I don't know  
21 the reporter, but I would like to know who that is. Just maybe  
22 if I had an opportunity to -- you know, low key try to  
23 (indiscernible).

24           **MR. LABONE:** Pink scarf over there.

25           **THE COURT:** Oh, yeah; okay, she's (indiscernible).



1           **MR. UNIDENTIFIED:** (indiscernible)

2           **THE COURT:** Well, the answer is I can't close the  
3 courtroom. I can't.

4           **(Voices and whispers overlapping)**

5           **MR. LABONE:** Oh, I understand.

6           **THE COURT:** I have no power to do what he's asking.  
7 You tell him you asked, and I declined.

8           **MR. LABONE:** Thank you.

9           **THE COURT:** And I will say I understand. You can  
10 also tell your client I hate for my name to be in the  
11 newspapers. I understand his concern very well. I really  
12 dislike it. I mean, notwithstanding my job, I pray that my  
13 case will get reported and my name won't be. So I do  
14 understand the concerns.

15           All right, do we have any -- any other issues while  
16 we're up here?

17           **MR. CHASNOFF:** Not that I'm aware of, your Honor.

18           **THE COURT:** Okay.

19           **MR. ZIMMERMANN:** Well, we did do what the Court  
20 asked. We went in the jury room, and we did not resolve it.

21           **THE COURT:** That's fair enough.

22           **(End bench conference at 11:44 a.m.)**

23           **THE COURT:** Okay. Opening statements from  
24 Mr. Shidlofsky?

25           **MR. SHIDLOFSKY:** Your Honor, I'm going to be brief.

1 And I don't have as much gray hair as Mr. Chasnoff. Although I  
2 will say that the case has probably aged me in the last few  
3 months.

4 **(Laughter)**

5 And let me explain real quick for the Court's sake  
6 because I know the Court probably has lots of questions what  
7 the respective roles will be. There's a lot of lawyers here.  
8 While I was lead counsel for the preliminary injunctions and at  
9 the Fifth Circuit and while I remain lead counsel for the  
10 remaining Plaintiffs, given the nature of this case, I'm going  
11 to defer to the individual teams for specific questions as to  
12 Kuhrt and as to Lopez.

13 **THE COURT:** Okay.

14 **MR. SHIDLOFSKY:** And I'm here to talk about -- a  
15 little bit about the policy and the framework. We provided the  
16 Court already with briefing and our findings of facts and  
17 conclusions of law about the money-laundering exclusion. I've  
18 compared the two, what was turned in by Underwriters and what  
19 was turned in by us, and there doesn't seem to be a whole bunch  
20 of disagreement about what has to be shown and who has the  
21 burden to show it. This Court's already ruled that they have  
22 the burden.

23 There is certainly a difference of opinion as to  
24 whether they can show their burden of proof in the facts. And  
25 again, I would defer to the individual teams. Where there

1 seems to be an element of disagreement with the policy language  
2 is that, it appears that it's Underwriters' position that it's  
3 enough for this Court to just conclude that a Ponzi scheme  
4 existed or that there was this massive fraud and not whether --  
5 not that -- or that they just -- that certain people knew or  
6 should have known. And we don't think that's a fair reading.

7           And the Court must conclude or believe that each of  
8 the Plaintiffs intentionally engaged in certain acts in  
9 furtherance of the Ponzi scheme or mass fraud. And I'm not  
10 saying there is a Ponzi scheme or massive fraud. I'm saying,  
11 if the Court ultimately concludes that, then the Court must  
12 also conclude that each Plaintiff did acts in furtherance of  
13 that.

14           **THE COURT:** Well, are you saying that -- once you've  
15 shown there's criminal property, there has to be some  
16 connection between the individual defendant and the money  
17 laundering aspect of it.

18           **MR. SHIDLOFSKY:** Exactly.

19           **THE COURT:** I don't think anybody disagrees.

20           **MR. SHIDLOFSKY:** Well, the highlight of the criminal  
21 property definition and the part about the knew or should have  
22 known. And they said see here, we only have to show knew or  
23 should have known and we have criminal property. And that is  
24 in the criminal property definition, but that's just the  
25 criminal property definition.

1           When you then go to the money-laundering definition,  
2   it uses words as concealment, disguise, conversion, the  
3   entering into or becoming part of an arrangement that  
4   facilitates, conspiracy, aiding or abetting. So there is a  
5   intent requirement built into this money-laundering definition.  
6   So it is not enough for them just to say there's a Ponzi  
7   scheme; there's a massive fraud; and the Plaintiffs have  
8   committed it. They must show for each one of these Plaintiffs  
9   that they fall into one of the four prongs of the money-  
10   laundering definition.

11           **THE COURT:** I agree. And I don't see that to be any  
12   disagreement anywhere.

13           **MR. SHIDLOFSKY:** Okay. That being said, I'll move to  
14   one other point, and then I'll pass on the team.

15           There was some talk about what Mr. Sewell is going to  
16   testify, Mr. Sewell being from Underwriters, about this being a  
17   negotiated policy. It's really only important -- it's only an  
18   issue if the Court finds that it's ambiguous, the policy's  
19   ambiguous.

20           Mr. Sewell did give his deposition. I expect him to  
21   testify here. He -- not as an expert, as a fact witness. He  
22   said yesterday that he's on the claims side not on the  
23   underwriter's side. He has no personal knowledge of the  
24   specific underwriting of this policy. He can testify generally  
25   how it works in the London marketplace. But I don't think he's

1 going to be able to tell you that they had no role in the  
2 drafting of the money-laundering exclusion.

3 **THE COURT:** Okay.

4 **MR. SHIDLOFSKY:** And I don't think there's evidence  
5 of that fact. Again, going back -- one more point on the  
6 concealment, disguise, conversion and those things. The key,  
7 again, to each I think was probably best summed up by their  
8 expert report, Mr. Berenblut, in a deposition where he said who  
9 put what where, I don't know.

10 **THE COURT:** Uh-huh.

11 **MR. SHIDLOFSKY:** And in my mind, from the coverage  
12 perspective, that's a fatal flaw in their case. If they can't  
13 show who put what where, then they can't meet their definition  
14 of money laundering under this policy.

15 **THE COURT:** No. You're right, if they can't. But  
16 the thing that I took from yours and Stanford's briefing that I  
17 think needs to be clarified is there is not a need for direct  
18 evidence. There does not need to be a statement by someone  
19 that Joe Schmo (phonetic) knew this was false when he gave it  
20 to me. Okay?

21 My point back for everybody's consumption is  
22 circumstantial evidence of knowledge is typically involved in  
23 trials of these kinds of issues, criminal and civil. So, yes,  
24 you're right. But that's not the whole answer to my challenge.

25 **MR. SHIDLOFSKY:** All right. And that may be

1 accurate --

2           **THE COURT:** And I don't mean to argue with you. It's  
3 just that you're raising good points, so I think we should just  
4 get on the record the focus.

5           **MR. SHIDLOFSKY:** Right, and just a five-second -- I  
6 mean, I don't dispute what the Court's said about  
7 circumstantial knowledge versus direct knowledge, but it still  
8 has to be in the form of concealment, disguise, conspiracy.

9           **THE COURT:** Sure. Yeah, but it's evidence I'm  
10 talking about.

11           **MR. SHIDLOFSKY:** Right, correct. And with that, I  
12 will pass it onto either Mr. Zimmermann or Mr. Kuniansky.

13           **THE COURT:** Okay.

14           **MR. KUNIANSKY:** Good morning, your Honor.

15           **THE COURT:** Good morning.

16           **MR. KUNIANSKY:** I represent Mark Kuhrt.

17           Prior to getting into what I expect the evidence to  
18 show about Mark Kuhrt, I wanted to make a few general  
19 observations about this case and what I think your Honor's  
20 going to find unique about it.

21           There are going to be no witnesses that testify about  
22 Mark Kuhrt in any way, shape or form. Basically, the  
23 Underwriters are going to throw a whole bunch of documents out  
24 on the table and say this shows fraud. And they've got an  
25 expert who's going to put his spin on the documents. We've got

1 the same documents, and we have an expert who has a different  
2 spin on the documents. But there will be no evidence at all  
3 from any witness' mouth that has anything whatsoever to do  
4 about Mark Kuhrt.

5 I want to tell you a little bit about Mark Kuhrt. He  
6 obtained a finance degree from the University of Texas in 1994.  
7 And then he moved to Birmingham, Alabama where he worked at a  
8 trucking company as an accountant for three years. Moved back  
9 to Houston which is his hometown; that was 1997. He was about  
10 25 years old at the time, and a headhunter put him in touch  
11 with one of the Stanford entities where he got hired at age 25.  
12 He was not a CPA then; he's not a CPA now; he's never been a  
13 CPA. He doesn't have an accounting degree; his degree was in  
14 finance.

15 Now, according to what I understand the allegations  
16 to be -- well, let me go back one bit.

17 When he first got hired, he got hired as something  
18 called a fixed-asset manager. And --

19 **THE COURT:** Okay. Let me ask you a question.

20 **MR. KUNIANSKY:** Yes.

21 **THE COURT:** I'm actually interested in what you're  
22 saying, but is there going to be evidence for this that's  
23 admissible?

24 **MR. KUNIANSKY:** Well --

25 **THE COURT:** What are we using for evidence?

1           **MR. KUNIANSKY:** -- this is what was relayed to  
2 Mr. Westheimer, and it's to the extent your Honor considers  
3 what was relayed to Mr. Westheimer. It's my understanding that  
4 the Underwriters are using what was relayed to him as a fact  
5 witness. So it seems like I should also be able to relay what  
6 was relayed to Mr. Westheimer as a fact witness. I don't see  
7 how we can have it one way but not the other.

8           **THE COURT:** Well the reason that I ruled that he  
9 could be a fact witness is because the predicate was that there  
10 would be -- he would be offered for admissions against  
11 interest. I need a rule of evidence that helps me get through  
12 the information that is not against Mr. Kuhrt's either penal or  
13 some financial or other interest. In other words, gets us over  
14 the hearsay problem.

15           **MR. KUNIANSKY:** It would be that experts are  
16 typically allowed --

17           **THE COURT:** No, no. He's not an expert for this. My  
18 ruling was clear. I've not decided about the expert stuff.  
19 The ruling I made was he would need -- he -- Westheimer would  
20 be allowed to testify to admissions by Kuhrt and Lopez because  
21 that's an exception to the hearsay rule, or it's really not  
22 even hearsay.

23           The limits on that are significant; that is, the  
24 limits on what Kuhrt or Westheimer can testify to are very  
25 significant because if it's exculpatory or background even, it



1 fits within the hearsay rules. And I cannot have it unless  
2 there's some exception that I'm asking for.

3 **MR. KUNIANSKY:** Well, the only exception I would be  
4 aware of would be what experts are allowed to rely on. And  
5 I'm --

6 **THE COURT:** But I'm not hearing Mr. Westheimer as an  
7 expert in the context in which I'm discussing now.

8 **MR. KUNIANSKY:** But I think Mr. Westheimer has to  
9 know the different positions that Mark Kuhrt held and the  
10 different responsibilities that he had with whatever entity it  
11 was to be able to draw opinions on what duties or not he should  
12 have had.

13 **THE COURT:** I'm not going to let Mr. Westheimer  
14 testify about what Mr. Kuhrt knew or didn't know.

15 **MR. KUNIANSKY:** I'm not asking him to testify about  
16 what Mr. Kuhrt knew or didn't know.

17 **THE COURT:** Okay.

18 **MR. KUNIANSKY:** What I'm saying is that he needs to  
19 know what positions Mr. Kuhrt held and with which entities in  
20 order to know what duties and responsibilities he had, not what  
21 was in Mr. Kuhrt's mind. I'm not --

22 **THE COURT:** Well, I interrupted you -- I interrupted  
23 you because you were talking about how Mr. Kuhrt through -- got  
24 to Stanford entities through a headhunter. And you started to  
25 get into he doesn't have a CPA and all of that, none of which

1 is a big deal. But I did not anticipate letting Mr. Westheimer  
2 testify to what duties Mr. Kuhrt had unless it was part of the  
3 factual -- it's inculpatory or he was going to use it in  
4 connection with an expert opinion that related to something  
5 pretty solid. And so far, all he's told us is that Mr. Kuhrt's  
6 behavior was (quote) "appropriate." That's not admissible. I  
7 am not going to hear him on that.

8 I am going to hear him on, did he look at financial  
9 documents, and tell me what they say from the company. That's  
10 primary evidence and he's an accountant and he can tell me that  
11 -- or forensic, whatever he is. And he can tell me what his  
12 digging on primary evidence shows. But the vast majority of  
13 opinions that he tried to give, I am not going to admit.

14 And so here's what I'm going to do for you now. I'm  
15 going to let you tell me what Mr. Kuhrt's duties were because,  
16 frankly, I'll probably get that anyway, and I am interested.  
17 But you cannot open and rely on Westheimer's materials at this  
18 time unless they are inculpatory of your client. And I just  
19 want to warn you of that because you will be telling me they're  
20 inculpatory by using the arguments -- or using the -- using  
21 them in an opening statement or at least the inference will be  
22 there. You won't be admitting it, but the inference will be  
23 there.

24 And if you open that door, you may wind up opening it  
25 for opinions which I will allow from the opponents which could

1 hurt your client. I'm trying to cabin these experts who I call  
2 second -- to some extent they're second-generation or second-  
3 level experts because to the extent they're relying on other  
4 people, that is -- I'm not really interested in an expert to  
5 rely on Van Tassel or other stuff. I'm interested in these  
6 experts to the extent they've done work themselves. It's the  
7 criticism that each side has made of the opposing expert. And  
8 I'm not -- I'm interested in getting their fresh and different  
9 and new opinions based on their own personal reviews of primary  
10 materials. That's what I'm primarily interested in.

11 I respect that experts can review inadmissible  
12 evidence, and so we all know that everybody's read Van Tassel's  
13 reports and Davis' plea agreement, which is one of the reasons  
14 I'm letting it in because it's stupid not to. In some fashion,  
15 it should be in the record because everybody here has read  
16 them. But the whole point is that I'm -- right now, all I've  
17 allowed from Westheimer is inculpatory admissions or admissions  
18 against interest. They don't have to be criminally  
19 inculpatory, of course. So I'm just warning you, be careful.  
20 Okay. Next, he -- you're telling me his duties.

21 **MR. KUNIANSKY:** Okay.

22 **THE COURT:** I would like to know his titles.

23 **MR. KUNIANSKY:** Originally --

24 **THE COURT:** That's objectively verifiable.

25 **MR. KUNIANSKY:** -- he's hired by a leasing entity of

1 Stanford as a fixed-asset manager, which I call a glorified  
2 inventory clerk. Basically, account desk, computers to find  
3 out worldwide where all the assets are and to organize into  
4 some kind of fashion.

5 **THE COURT:** It's fixed assets so that means really  
6 real estate as opposed to --

7 **MR. KUNIANSKY:** I don't believe it was real estate  
8 but it may have been. I'm not sure, your Honor, but I know  
9 that it dealt with things like desks, computers, equipment,  
10 things of that nature. And it was to organize everything and  
11 have some computerized system of being able to keep track with  
12 all of the assets of this far-flung organization.

13 Now, as I understand it, according to that time, at  
14 that period of time when he's hired at age 25 as this glorified  
15 inventory clerk, allegedly a Ponzi scheme has been going on for  
16 10 years, a multi-billion dollar Ponzi scheme.

17 Your Honor is not going to hear one piece of evidence  
18 during this trial, circumstantially or direct, that anybody  
19 ever told Mark Kuhrt that there was a Ponzi scheme going on.  
20 You're not going to hear any evidence that Mark Kuhrt was aware  
21 there was a Ponzi scheme going on. And you're not going to  
22 hear any evidence Mark Kuhrt participated in a Ponzi scheme.

23 Now, eventually he worked his way up into accounting  
24 positions with one of the Stanford entities, and it was  
25 something called SFGC or Stanford Financial Group Company. And

1 basically what that entity did was provide administrative  
2 services to many other Stanford entities. And they would  
3 provide human resources; they would provide IT; they would  
4 provide some minimal level of accounting services; there was  
5 legal services, et cetera; all different kinds of  
6 administrative services to these different affiliated entities.

7 Now, there are three main allegations against  
8 Mr. Kuhrt. And I want to go over the three allegations, and  
9 then I'm going to go over how these entities were set up to  
10 explain how these allegations fit into the Stanford group of  
11 companies. But the three allegations that have been made are  
12 something that the Underwriters refer to as reverse engineering  
13 on the revenue of the investments of Stanford International  
14 Bank Limited, which is the bank in Antigua that issues the CDs.  
15 That's one of the allegations.

16 The second allegation is that Mark Kuhrt was involved  
17 in not properly disclosing a shareholder loan that Allen  
18 Stanford had in the amount of \$1.7 billion as a related-party  
19 transaction on the annual reports of Stanford International  
20 Bank Limited.

21 And the third and final allegation against him is  
22 that it is alleged that he artificially inflated the value of  
23 some real estate, that's typically called the Island Club, some  
24 island property that Allen Stanford acquired in Antigua; and  
25 that he artificially inflated that value from 63 1/2 million to

1 \$3.2 billion to inflate the assets of Stanford International  
2 Bank Limited.

3 And I'm going to address each one of those  
4 allegations one by one and submit to your Honor there's not  
5 going to be any evidence that Mark Kuhrt knowingly engaged in  
6 any of those activities nor will any witnesses come in here and  
7 say that he did.

8 Now, the first thing I'd like to do is I've got a  
9 chart on a PowerPoint display, Relationship of Relevant  
10 Entities. Could we pull that up, Mr. Bramer?

11 **THE COURT:** Are you going to get -- give me the  
12 titles that he held and which companies? I interrupted you and  
13 I apologize.

14 **MR. KUNIANSKY:** Yes. He started out as fixed-asset  
15 manager for I think it was Stanford Leasing Company or  
16 something very similar to that. And that was in 1997. And in  
17 2000, he was promoted to be an accounting manager at SFGC,  
18 which is Stanford Financial Group Company. And I'm not sure of  
19 the exact year but it was either 2004 or 2005 that he was  
20 promoted to Assistant Controller at Stanford Financial Group  
21 Company. And then in August of 2007, there was an initiative  
22 of Stanford for tax reasons to try to locate some of their  
23 administrative operations in the U.S. Virgin Islands. Economic  
24 Development Corporation they called it, and they got certain  
25 tax benefits for that. And at that time, there was a new

1 entity formed that sort of took over as SFGC, and that was  
2 called SFGGM, which was --

3 **THE COURT:** In St. Croix.

4 **MR. KUNIANSKY:** -- in St. Croix, Stanford Financial  
5 Group Global Management. And at that point in time, his title  
6 became something called Global Controller.

7 Now, Mr. Bramer, could you pull up the first -- have  
8 we got to switch it over?

9 **THE COURT:** Oh, sorry. Okay. Are you sitting in the  
10 back? Is it back?

11 **MR. UNIDENTIFIED:** Yeah, it's back.

12 **THE COURT:** Does that work?

13 **(Counsel confer)**

14 **MR. KUNIANSKY:** Now, what I wanted to do was just  
15 give a little understanding of the relevant entities for  
16 purposes of this trial. I understand there may be -- I've seen  
17 in reports various numbers of Stanford-related entities. I  
18 think maybe even as high as 150 or something in either Van  
19 Tassel, Berenblut report, or whatever. But 99 percent of that  
20 is not relevant for this proceeding.

21 Up on the top right-hand corner, there's Stanford  
22 Group Company; and that was a company that was involved in  
23 marketing financial instruments. And they called the people of  
24 marketing financial advisors or FAs, basically a glorified word  
25 for a stockbroker.

1           **THE COURT:** Am I supposed to be seeing this on here?

2           **MR. KUNIANSKY:** I'm hoping your Honor does. It's  
3 coming up over on here.

4           **THE COURT:** Well, I have something on screen, but  
5 what are you --

6           **MR. KUNIANSKY:** It says --

7           **THE COURT:** What are you --

8           **MR. KUNIANSKY:** -- Relationship of Relevant Entities.  
9 And on the top right it says some -- SGC.

10          **THE COURT:** Got it.

11          **MR. KUNIANSKY:** Okay. That stands for Stanford Group  
12 Company. And that was the arm that marketed or sold these  
13 various investments. They had stockbrokers working out of  
14 there, at least when the building was still around; and it was  
15 that brown brick building right across the street from the  
16 Galleria. At least that was one of them. And the stockbrokers  
17 sold various financial instruments to their clients. Stocks,  
18 bonds, everything. As far as the stocks, bonds, et cetera, I  
19 don't think there's been any allegation made by anybody that  
20 there was anything illegitimate about those. But everything  
21 relates to the certificates of deposit that were sold.

22               Now, these certificates of deposit were issued by a  
23 bank out of Antigua, Stanford International Bank Limited, which  
24 I have right below, SIBL. And by the way, I don't have it  
25 below because it's a parent subsidiary. I'm just showing



1 different entities here. And the -- well, you'll see the name  
2 pop up on some of the documents. The president of that  
3 organization was Juan Rodriguez-Tolentino, and the head  
4 accountant who you will see on some of the emails was Banu  
5 Persuad.

6 Now, I've got this box, 50-plus Stanford-affiliated  
7 entities. There are numerous other Stanford-affiliated  
8 entities that don't fit directly into this case. If you go  
9 below, you've got SFGC, Stanford Financial Group Company, and  
10 that is the organization that I told you provided  
11 administrative services to various of the Stanford-related  
12 entities.

13 And in August of 2007, a new entity was created in  
14 St. Croix that basically was slated to take over that entity as  
15 part of this global initiative, and that was Stanford Financial  
16 Group Global Management.

17 Now, Mr. Kuhrt was one of several accountants that  
18 worked for Stanford Financial Group Company; and later when he  
19 was transferred over to St. Croix in August of 2007, Stanford  
20 Financial Group -- or Global Group Management.

21 Now, one of the important points that I want to make  
22 out, and then I'll go back to the various allegations, is that  
23 Mr. Kuhrt was not an employee, not an officer, director,  
24 shareholder or employee of Stanford International Bank Limited,  
25 that deals with issuing the CDs; nor was he a officer,

1 director, employee, shareholder of Stanford Group Company that  
2 was the arm that sold various financial instruments including  
3 these CDs.

4 **THE COURT:** Can I ask you a question?

5 **MR. KUNIANSKY:** Yes.

6 **THE COURT:** On SFGGM, that's the St. Croix company,  
7 you say he was there from August '07 to February '08. Do you  
8 mean '09?

9 **MR. KUNIANSKY:** It may be. Whenever everything shut  
10 down.

11 **THE COURT:** '09.

12 **MR. KUNIANSKY:** '09.

13 **THE COURT:** And when you say he was one of several  
14 accountants, his name was -- you told me -- Global Controller,  
15 right?

16 **MR. KUNIANSKY:** Right.

17 **THE COURT:** And he was -- prior to that, he was  
18 Controller of Stanford Group -- Stanford Financial Corp.,  
19 right?

20 **MR. KUNIANSKY:** Right.

21 **THE COURT:** He was Controller, right?

22 **MR. KUNIANSKY:** Right. He had an accounting  
23 department.

24 **THE COURT:** Okay, so he was not -- just -- I'm just  
25 trying to understand your facts here. He was not one of a

1 bunch of accountants, he was the top dog?

2           **MR. KUNIANSKY:** No, he was not the top dog. Above  
3 him would have been Mr. Lopez. And above Mr. Lopez, as Chief  
4 Financial Officer, would have been James Davis.

5           **THE COURT:** Right, okay.

6           **MR. KUNIANSKY:** And, of course, above James Davis was  
7 Stanford.

8           **THE COURT:** Okay, thank you. Davis -- but Davis had  
9 titles in different companies?

10           **MR. KUNIANSKY:** And I probably ought to get a little  
11 more accurate. I'm not sure when he transferred over to SFGGM,  
12 whether Mr. Lopez was still technically above him or not.

13           **THE COURT:** Well, I don't know --

14           **MR. KUNIANSKY:** But --

15           **THE COURT:** -- I don't think Mr. Lopez transferred.

16           **MR. KUNIANSKY:** No. I know he didn't. He stayed in  
17 Houston.

18           **THE COURT:** But I think the functions remained the  
19 same. I mean --

20           **MR. KUNIANSKY:** Right.

21           **THE COURT:** -- from the papers it appears that it was  
22 a title --

23           **MR. KUNIANSKY:** Correct.

24           **THE COURT:** -- I mean it was a paper transfer. They  
25 were just -- and he moved.

1           **MR. KUNIANSKY:** There's nothing that really changed  
2 from SFGC to SFGGM, other than it was part of this tax  
3 initiative and a formation of a new organization.

4           **THE COURT:** Okay.

5           **MR. KUNIANSKY:** Basically, everything continued on  
6 pretty much as it had been in the past.

7           **THE COURT:** Okay.

8           **MR. KUNIANSKY:** Now, I want to go to the three  
9 different allegations that are involved in this case.

10           And if we could pull up, Mr. Bramer, the reporting  
11 revenue on investment from SIBL.

12           And this is what --

13           **THE COURT:** Ben (phonetic), turn that thing around so  
14 he can see it, if you don't mind, please.

15           **MR. KUNIANSKY:** Your Honor, I'm okay right here.  
16 Mr. Chasnoff is helping me out.

17           **THE COURT:** Oh, I didn't see that. Okay, fine.  
18 Sorry. I'm with you, reporting revenue.

19           **MR. KUNIANSKY:** And this is what has been referred to  
20 by both the prosecution and the Underwriters as so-called  
21 (quote) "reverse engineering" (closed quote). The first thing  
22 that I want to point out is that only one person, and perhaps  
23 two, ever had the investments of SIBL; and that was James Davis  
24 and presumably Stanford.

25           This was a very closely-guarded secret. It was

1 referred to as the (quote) "secret family recipe" (closed  
2 quote) like the 11 herbs and spices of Kentucky Fried Chicken,  
3 like the formula to Coca Cola. There will not be one piece of  
4 evidence during this trial that anybody other than James Davis,  
5 and perhaps Allen Stanford, had this portfolio of investments  
6 and what the investments were earning. It was alleged to be  
7 proprietary. That is, if this secret got out of how they were  
8 managing their investments to earn this high rate of return,  
9 that anybody could do it so that it was this closely-guarded  
10 secret by James Davis.

11 Now, one of Kuhrt's responsibilities was with  
12 numerous of these affiliated entities of Stanford. And by the  
13 way, each of these had their own accounting department; every  
14 one of these affiliated entities, including Stanford  
15 International Bank Limited, had their own accounting  
16 department. But they would submit financials onto the entity  
17 that Kuhrt worked for, this SFGC; and one of his jobs would be  
18 to compile these in something that was called red books. And  
19 those would be forwarded on to Davis and Stanford.

20 But what happened is Davis was routinely late in  
21 providing the revenue on the investments to Stanford  
22 International Bank Limited. And this may seem somewhat odd but  
23 Stanford International Bank Limited didn't know their own  
24 investments. The president of Stanford International Bank  
25 Limited didn't know the investments.

1           **THE COURT:** It does seem very odd.

2           **MR. KUNIANSKY:** The accountant -- the head accountant  
3 didn't know their own investments. And what they were told is  
4 this is the secret family recipe. So as a -- they would be  
5 late in being able to put together these red books because they  
6 wouldn't have the revenue numbers from Stanford International  
7 Bank Limited because the head accountant over there, Banu  
8 Persuad, wouldn't be able to provide them. And he couldn't  
9 provide them because he hadn't got the information from Davis.  
10 He didn't know it himself because it was the secret family  
11 recipe.

12           So what happened is Stanford International Bank, like  
13 most companies, had a budget. A budget was prepared on a  
14 annual basis. I think just about every company prepares a  
15 budget. So there was a remedy devised to deal with this  
16 tardiness to the best --

17           **THE COURT:** Was the budget -- what was the budget  
18 supposed to do, if you know?

19           **MR. KUNIANSKY:** Well, initially, the budget was just  
20 a budget. It wasn't supposed to do anything. It was just --

21           **THE COURT:** It was supposed to be --

22           **MR. KUNIANSKY:** -- projections of what we think we're  
23 going to be making, and how much new money is going to be  
24 coming in, and what our expenses are going to be.

25           **THE COURT:** Right.

1           **MR. KUNIANSKY:** But at some point, it does change.

2 And I think that's what your Honor gets -- is getting at.

3           **THE COURT:** Well, no; I was more basic, actually. I  
4 don't know how we're getting this into evidence but okay,  
5 whatever.

6           **MR. CHASNOFF:** Your Honor?

7           **THE COURT:** I'm interested.

8           **MR. CHASNOFF:** There are a number of things which  
9 have been said which I believe have -- this secret family  
10 recipe and stuff like that. I don't know who's going to  
11 testify to that, so I just --

12           **THE COURT:** Well, let --

13           **MR. CHASNOFF:** -- I want to object.

14           **THE COURT:** -- let me see counsel at the side bar on  
15 this.

16           **(Begin bench conference at 12:17 p.m.)**

17           **THE COURT:** This is on the record.

18           **MR. BENNETT:** On the record?

19           **THE COURT:** On the record. This whole case seems  
20 like, from the preliminary material I've got, for instance the  
21 proposed language, I've heard all this before. It's  
22 interesting, frankly, and I'm getting a little more detail,  
23 which I'm curious, you know. But in terms of admissibility,  
24 I'm not sure which way this is going to cut. And I just feel  
25 compelled, on a equity basis, to tell you that I'm going to let

1 you do whatever you all want.

2 But there's a serious double-edged sword right here,  
3 very serious double-edged sword, because so much of the money  
4 came and so much of the investments and all that of the  
5 Stanford International Bank came from an absolutely undisclosed  
6 source. And if you think -- I know that you think that helps  
7 you because Mr. Kuhrt is saying I didn't know what comprised  
8 that 80 percent of the numbers we were putting in the financial  
9 statements, you know, for our assets or whatever or the  
10 revenues or whatever it turns out.

11 But it really cuts both ways because he had a very  
12 high title. And the issue that I have to deal with is should  
13 he have suspected there was real serious funny business going  
14 on because nobody would tell him anything, and he was yet  
15 expected to give budgets and projections; and then -- and the  
16 non-quarterly reporting months they have sometimes didn't  
17 change. And then the reporting months they changed some. But  
18 then there are these couple of emails that they've been -- the  
19 Underwriters and, frankly, the prosecutor's going to wave  
20 around.

21 So, I don't know which way I'm going to come out but  
22 there's serious issue of whether somebody with the title Global  
23 Controller, or whatever he is, and Head Controller for the bank  
24 should have accepted the nondisclosure, period. And from a  
25 criminal standpoint, you're into maybe willful blindness,



1 deliberately -- let's go with deliberate and get what's --

2 (Voices overlap)

3 MR. KUNIANSKY: (indiscernible) ignorance.

4 THE COURT: -- ignorance.

5 MR. KUNIANSKY: Yeah.

6 THE COURT: But the whole point is, I'm not in the  
7 criminal case, particularly.

8 MR. UNIDENTIFIED: I know that.

9 THE COURT: I'm in the civil case. And the standard  
10 for money laundering is reasonably should have suspected that  
11 there was criminal activity going on. That's overstating it --  
12 not overstating but over-generalizing. But I don't mind trying  
13 this case -- frankly, I'm probably going to try it either way;  
14 what's the difference to me; I'm ready to go. It's very  
15 interesting. But I think -- I'm just wondering why this helps  
16 you.

17 And I wanted to give you that feedback because I'm  
18 not -- I have not decided this case. I am dying to see the  
19 evidence, and I appreciate -- I actually have already read and  
20 looked at the footnotes, not the evidence but the footnotes for  
21 the Underwriters' findings. And you're right. There's nothing  
22 there that, you know, details about Kuhrt or even Lopez. I  
23 mean, we had some emails back and forth; and I haven't read the  
24 emails so I don't know which way it'll show.

25 But it's a hard argument that a guy with that title

1 shouldn't have been looking and asking more questions. And,  
2 frankly, engaged -- you know, as close as he was about trying  
3 to do projections that would meet certain requirements. So,  
4 you go forth. But if you go into all of this, I'm going to let  
5 their expert -- I mean, that means I will have let Westheimer  
6 talk, and it means I will let their expert go farther. And I  
7 thought I would give you a feel because I consider this a  
8 serious double-edged sword in the civil context in which I'm  
9 sitting. Okay?

10 **MR. KUNIANSKY:** And it's not time to argue the case,  
11 obviously.

12 **THE COURT:** No.

13 **MR. KUNIANSKY:** But my position regarding the titles,  
14 it was just that. He was basically a glorified numbers  
15 cruncher.

16 **THE COURT:** But you don't have any evidence of that  
17 except Westheimer talking inculpatory. And I may not -- I mean  
18 exculpatory.

19 **(Voices overlap)**

20 **MR. KUNIANSKY:** (indiscernible) They have no  
21 evidence otherwise. They have the burden of proof. There's  
22 nothing else said that they can disprove.

23 **THE COURT:** I don't know because I haven't seen the  
24 evidence yet, so good for you.

25 **MR. KUNIANSKY:** Yes.

1           **THE COURT:** But all I'm saying is I've made my point.  
2 Thanks.

3           **(Counsel thank the Court)**

4           **(End bench conference at 12:22 p.m.)**

5           **THE COURT:** So you're -- oh, I'm sorry.

6           **MR. KUNIANSKY:** I think we're back to -- on this  
7 about the budget. And I talked about a budget being done every  
8 year. The budget was just that.

9           Davis is late in providing numbers that only Davis  
10 has. And as a result, a procedure is implemented to do -- use  
11 the budgeted number simply as a projection, nothing other than  
12 a projection, and then to be forwarded on to Davis to true up.  
13 And that they were always forwarded on to Davis to be trued up.  
14 And they were only submitted to Stanford International Bank  
15 after having been submitted to Davis for his approval.

16           And then after all that, there are independent,  
17 outside auditors who audited the books and records of SIBL; and  
18 those are the numbers that get into the annual reports, the  
19 numbers out of the auditors' reports.

20           In short, Mark Kuhrt at no time reverse engineered or  
21 came up with numbers to meet any goals. He didn't have the  
22 information. He did the best he could do with projections and  
23 forwarding them to Davis for Davis' approval.

24           **THE COURT:** Did -- is there -- oh, forget it. Sorry.

25           **MR. KUNIANSKY:** The next area that I wanted to go to

1 was shareholder loans. And we'll let the battle of the experts  
2 decide this issue. And I'm not sure it makes a difference to  
3 Mark Kuhrt. But it is our understanding that there was a total  
4 of 1.7 billion, approximately, in shareholder loans and not the  
5 1.7 plus the 1.8 that Mr. Chasnoff referred to in his opening  
6 statement.

7 **THE COURT:** Well, one, Mr. Chasnoff --

8 **MR. KUNIANSKY:** Either way, I'll let the --

9 **THE COURT:** -- Mr. Chasnoff referred to it as  
10 shareholder loans for 1.7 or something, and then related -- and  
11 related-party transactions, which since Stanford apparently  
12 controlled all of these entities.

13 **MR. KUNIANSKY:** Okay, yeah.

14 **THE COURT:** So he's made that distinction.

15 **MR. KUNIANSKY:** Right. And I'll tell your Honor the  
16 way I understand it, and then we'll let the accountants talk  
17 about it but I'm not really sure it's a distinction with a real  
18 meaning to, you know, my client.

19 But in any event, as I understand it, I think what  
20 the evidence is actually going to show is that there were  
21 numerous Stanford-affiliated entities that borrowed money from  
22 Stanford International Bank Limited. And that at some point in  
23 time -- and I doubt there'll be evidence of this -- and once  
24 again, it doesn't matter from our end what their reasons are,  
25 but I understand there were apparent tax reasons and what

1 happened is that Stanford assumed the debt of the loans to  
2 these various entities. And at that point, they became (quote)  
3 "shareholder loans" (closed quote). So we're not talking  
4 about, you know, 1.7 to the entities then another 1.7 to  
5 Stanford; we're talking about the same \$1.7 billion.

6 Now, the Underwriters claim that Kuhrt has made a  
7 damning admission. That he admitted that he knew about these  
8 shareholder loans and that they were not properly disclosed as  
9 a related-party transaction. There is no question but that he  
10 did know about these shareholder loans. He is working for the  
11 administrative company and not SIBL. He advises his boss,  
12 several layers up, James Davis, that these need to be disclosed  
13 as a related-party transaction in a footnote. And that  
14 recommendation is apparently declined by Mr. Davis.

15 The outside auditors review all of this, and they  
16 sign off on the financial statement without the footnote that  
17 it's a related-party interest. And Stanford and Davis signed  
18 this annual return, and Kuhrt did not. I submit a couple of  
19 things that, first of all, Kuhrt did what he was supposed to  
20 do. He properly advised what he understood the footnote should  
21 say relating to this. And then the CFO of the organization, as  
22 well as the independent auditors, approve it without that. I  
23 submit that he didn't do anything wrong, nor he didn't suspect  
24 any wrongdoing, nor does that have anything to do with him  
25 suspecting any kind of Ponzi scheme.

1           The final allegation relates to something that's been  
2 called the Island Club, and I don't think there's going to be  
3 any dispute that Stanford wanted to develop some island  
4 property off the coast of Antigua for this incredible resort  
5 for the ultra wealthy. And then he acquired 1,587 acres land  
6 in doing this, and apparently the purchase price was  
7 approximately \$63 1/2 million.

8           Davis comes to Kuhrt and wants him to come up with  
9 various accounting scenarios to have this property transferred  
10 to Stanford where it was supposedly originally supposed to be  
11 in Stanford's name, and then back into Stanford International  
12 Bank. And to -- under International Accounting Standards, to  
13 mark the value of the property to market; that is, under GAP,  
14 we use historical-cost basis. Whatever a property costs is  
15 what it's accounted for on the books. But under the  
16 International Accounting Standards and mark to market, you mark  
17 it at its fair value.

18           **MR. CHASNOFF:** Your Honor, I -- maybe there was a  
19 piece of evidence I've missed, or testimony, but there is no  
20 evidence of the mark-to-market recommendation.

21           **THE COURT:** Okay. Well I haven't read it either.  
22 This is opening statements not evidence, that's for sure.

23           **MR. KUNIANSKY:** And Davis provides Kuhrt with a \$2  
24 million-an-acre figure, and I believe there's some handwritten  
25 notes on this that'll be in evidence; and that is a sale of a

1 property known as Jumby Bay. Jumby Bay was some nearby island  
2 resort in Antigua where the property -- six acres of land had  
3 sold for approximately \$12 million or \$2 million an acre.

4 So, Kuhrt applies this \$2 million an acre times that  
5 acreage, arriving at a value of 3.174 billion, but --

6 **THE COURT:** Does he do any analysis of whether the  
7 properties are comparable?

8 **MR. KUNIANSKY:** No, your Honor. He's not a real  
9 estate appraiser. He doesn't purport --

10 **THE COURT:** Does he ask for any analysis --

11 **MR. KUNIANSKY:** Yes, he asked for an appraisal. He  
12 absolutely asked for an appraisal and was told one would be  
13 forthcoming; and that this deal would never come through unless  
14 an appraisal and legal approved it, which never happened.

15 And by the way, this deal never occurred. It's been  
16 referenced --

17 **THE COURT:** It's -- the issue is not whether it  
18 occurred. The issue -- although Stanford has a witness that's  
19 going to say they built a dock or something, but -- or a  
20 marina. But the whole point is, the issue in this case is  
21 whether it was reported at a fair value.

22 **MR. KUNIANSKY:** Okay.

23 **THE COURT:** Not whether or not --

24 **MR. KUNIANSKY:** You're absolute --

25 **THE COURT:** -- they actually built the thing.

1           **MR. KUNIANSKY:** You're --

2           **THE COURT:** And the question is the timing between  
3 the purchase at 63 million, which we all know didn't actually  
4 close as to one of them until after it was reported, but the  
5 point is \$63 million purchase, or contracts to purchase, versus  
6 \$3.174 billion valuation sometime later. And my question to  
7 you is, if you know, what was the time gap or the difference in  
8 time between the purchase at 65 -- or 63 1/2 million versus the  
9 reporting of a value at three billion.

10           **MR. KUNIANSKY:** It was never reported at that value,  
11 and that's the point I'm making.

12           **THE COURT:** Okay.

13           **MR. KUNIANSKY:** Never. And now, Mr. Chasnoff -- and  
14 I'm sure he did it in the best of faith -- but he indicated to  
15 the Court that there was a exhibit that shows that this thing  
16 was booked at this --

17           **THE COURT:** Okay.

18           **MR. KUNIANSKY:** -- in the internal records. And I  
19 guess what he's missed is the document he is relying upon --  
20 and the metadata will show this -- was actually prepared by  
21 James Davis in February of 2009. And then he uses that to  
22 represent what the assets were back June 30th, 2008.

23           In other words, James Davis is apparently trying to  
24 come up with ways to fill a hole that only he knows about when  
25 this investigation starts and things look like they're going to



1 crumble. And so he comes up with some charts that we know  
2 nothing about. We haven't seen these. He's coming up with his  
3 own internal figures trying to show how we have \$8.1 billion in  
4 assets or how Stanford International Bank Limited has \$8.1  
5 billion in assets. And he comes up putting this property in  
6 there at the \$3.1 billion. That's not a record -- internal  
7 record of anybody. That is James Davis' own calculation that  
8 we never saw.

9           **THE COURT:** Well, wasn't that record given -- well,  
10 you may not be the person to ask. Forget it. But I thought it  
11 was given to somebody.

12           **MR. KUNIANSKY:** No, I don't think it was given to  
13 anyone. I think it was just something that --

14           **THE COURT:** The regulators.

15           **MR. KUNIANSKY:** No, this was not given to the  
16 regulators.

17           **THE COURT:** Okay.

18           **MR. KUNIANSKY:** Absolutely not given to the  
19 regulators.

20           **THE COURT:** Okay. That's what I'm trying to figure  
21 out, what's the story there. But okay, we'll find out later.

22           **MR. KUNIANSKY:** The story is it was absolutely never  
23 booked.

24           **THE COURT:** All right.

25           **MR. KUNIANSKY:** This transaction never took place.

1 It was never booked. And to the point that Mr. Chasnoff  
2 represents, if any, to this Court that it was booked, he's  
3 simply incorrect. It didn't happen; end of story.

4 **THE COURT:** But Davis did something with the number.

5 **MR. KUNIANSKY:** I think this was something Davis was  
6 preparing to probably try and pull the wool over the SEC. But  
7 nothing was done with these numbers.

8 **THE COURT:** Okay, thank you.

9 **MR. KUNIANSKY:** These are not the records of SIBL or  
10 any other entity. This is Davis' own -- an admitted liar,  
11 cheat -- thief and cheat trying to come up with a way to boost  
12 the value of the assets of Stanford International Bank by a  
13 bunch of hocus pocus.

14 **THE COURT:** Okay.

15 **MR. KUNIANSKY:** And I think that also fits into the,  
16 apparently -- and Mr. Chasnoff said something about Kuhrt and  
17 Lopez inflated the values of certain stock to come up with this  
18 number. They didn't inflate the values of anything. This is a  
19 listing -- and I think if we could put it up, I think it was --  
20 Mr. Bramer, can you pull that up?

21 And this is actually -- it started out as a --

22 **THE COURT:** What are you looking at? Do you want it  
23 -- for the record?

24 **MR. KUNIANSKY:** Well, it started out Underwriters'  
25 Number 68. We're actually going to be renaming it, I think, to

1 our Exhibit --

2 **MR. UNIDENTIFIED:** Three hundred.

3 **MR. KUNIANSKY:** -- 300. Which, because the  
4 Underwriters' exhibit fails for some reason to include the  
5 second page of the exhibit --

6 **THE COURT:** Oh, okay.

7 **MR. KUNIANSKY:** -- so we've just included both pages  
8 of it. And I tell you --

9 Mr. Bramer, could you first just kind of show the  
10 whole document? And then we'll pull out the part that we're  
11 referring to.

12 **(Pause / whispers)**

13 Judge, I think we're having a little of computer  
14 problem here, but --

15 **THE COURT:** I can read it the way it is, if you want.

16 **MR. KUNIANSKY:** But here -- the point I wanted to  
17 make, this is the bottom of the document. The top portion of  
18 it lays out a bunch of stocks that I presume Stanford  
19 International Bank purportedly holds in their portfolio.  
20 Whether they do or not, we have no clue. Apparently, I think  
21 these are some of the stocks that Mr. Berenblut must have  
22 looked up. And apparently some of these values are phony  
23 because they exceed the entire capitalization of the company.  
24 And --

25 **THE COURT:** Right. I don't know, but that list of

1 stocks is actually -- it's been reported -- I don't know if  
2 it's true but it's been reported to be the list of private  
3 equity investments, not stock necessarily --

4 **MR. KUNIANSKY:** Oh, okay, yeah.

5 **THE COURT:** -- but possibly.

6 **MR. KUNIANSKY:** Private equity stock, whatever --  
7 whatever these are. My point -- a couple of points to make,  
8 though. I think the statement was made in opening by  
9 Mr. Chasnoff that Kuhrt and Lopez falsified these numbers to  
10 come up with whatever number we -- we didn't falsify anything.  
11 We didn't come up with any of these numbers. And there won't  
12 be any evidence that we came up with any of these numbers. If  
13 these numbers are wrong, you know, blame it on the thief, Jim  
14 Davis. But don't put his dirty laundry on us.

15 And then the point I wanted to make down at the  
16 bottom, dealing with the fact that they're using this to claim  
17 that the \$3.1 billion got booked. And if you go to adding up  
18 all these real estate properties, it comes to the \$3.1 billion,  
19 which matches the \$2 million-an-acre, et cetera. This record  
20 never got -- it didn't get booked anywhere. And there won't be  
21 any evidence it got booked anywhere. This was something  
22 created long after the fact by James Davis. And the metadata  
23 will show that, that he's trying to reflect back eight months  
24 earlier what he claims were the assets at the time. And the  
25 ridiculous part about is apparently he doesn't think very long

1 and hard about it because he's reporting some island property  
2 that hasn't even been purchased yet. Okay? But don't put that  
3 dirty laundry on us. We had nothing to do with that.

4 Basically, all Mark Kuhrt did was, per request, come  
5 up with a accounting scenario based upon what he understood to  
6 be, you know, the data. But nothing was booked. Nothing was  
7 done. And he was going to require an appraisal before anything  
8 was done.

9 Now, I wanted to go over some miscellaneous matters  
10 regarding intent because I think intent does fit into this.  
11 Because one of the definitions is, you know, whether or not a  
12 crime was committed in addition to the suspected -- but Mark  
13 Kuhrt was a salaried employee, earning a salary commensurate  
14 with, if not lower, than what would be expected with somebody  
15 with his duties.

16 And the Underwriters can try all they want, and they  
17 can have, you know, their 400 lawyers looking through 10  
18 million documents, and what they will not find --

19 **THE COURT:** Is there a document that tells what his  
20 salary was?

21 **MR. KUNIANSKY:** Well --

22 **THE COURT:** Is there a document, yes or no?

23 **MR. KUNIANSKY:** -- yes and no. I have submitted some  
24 tax records.

25 **(Laughter)**

1           **THE COURT:** I said "yes or no."

2           **MR. KUNIANSKY:** Okay. There is but I doubt it will  
3 come in. I submitted his tax returns to your Honor. Your  
4 Honor has them, okay? They are objecting on authenticity. And  
5 for obvious reasons, I don't know that I'm going to call  
6 someone to the stand to authenticate them.

7           **THE COURT:** All right.

8           **MR. KUNIANSKY:** But in any event --

9           **THE COURT:** Well, I might receive them anyway if  
10 they're signed, but --

11           **MR. KUNIANSKY:** Well here's the point that I'm  
12 making. There will not be any evidence that any monies at all  
13 went to Mark Kuhrt. So it's somewhat interesting to have this  
14 multibillion dollar Ponzi scheme where allegedly out of \$8.1  
15 billion, the receivers only come up with one billion or  
16 something, so seven billion has supposedly gone somewhere; and  
17 you won't see and there won't be produced to you one piece of  
18 evidence that one dime of that went to Mark Kuhrt other than a  
19 normal salary.

20           Finally, I'm going to play a tape. It's 10 minutes.  
21 What happens when the -- when this thing starts breaking and  
22 the receiver comes in and everything's shut down is there was a  
23 staff accountant that worked for Mark Kuhrt that actually did a  
24 lot of the numbers crunching on these revenue entries. And the  
25 FBI approached him and apparently put the fear of God into him

1 and told him, I guess, he was in a lot of trouble and he better  
2 make some calls; and he makes a tape-recorded call to Mark  
3 Kuhrt.

4           Calls Mark Kuhrt up late at night. It's very obvious  
5 from the tape Kuhrt's not expecting the call. And for 10  
6 minutes, he does everything he can do to try to get Mark Kuhrt  
7 to make some kind of incriminating statement. And Mark Kuhrt  
8 repeatedly tells him over and over again, tell the truth. He  
9 asked Mark Kuhrt what should I do if the FBI questions me.  
10 Tell them the truth. And then he starts asking questions:  
11 what about this; what about that? And Mark goes "Look, Rolando  
12 (phonetic), if you have any questions at all, you should go to  
13 the FBI and the SEC and address any concerns that you have."  
14 And I submit to you that those are not the actions of somebody  
15 that knowingly engaged in any type of criminal activity.

16           I think at the conclusion of this case, what you're  
17 really going to have is not any evidence or hardly anything.  
18 You're going to have a bunch of documents that are thrown at  
19 you. They are no smoking-gun documents. They're just going to  
20 be a whole bunch of emails and other documents with each side  
21 putting its spin on them; to which I say Underwriters have the  
22 burden of proof, and they will not meet that burden.

23           **THE COURT:** Thank you. You may proceed.

24           **MR. ZIMMERMANN:** May it please the Court. If you  
25 have read, as you said you have, and I know you have, all the

1 several feet of paper that's been submitted to you, you've got  
2 to be very tired now. I'm going to attempt --

3 **THE COURT:** No more tired than you all.

4 **MR. ZIMMERMANN:** -- not to put you sleep.

5 **THE COURT:** You've much worse.

6 **MR. ZIMMERMANN:** I agree.

7 **THE COURT:** So don't worry about that.

8 **MR. ZIMMERMANN:** So I hope to take just maybe 15 or  
9 20 minutes or so of your time and try to not repeat what has  
10 been said by Mr. Kuniansky because much of it would apply to  
11 Mr. Lopez. But I do want to point out some things specific to  
12 Mr. Lopez, with the Court's permission. In other words, things  
13 -- you said try to give you a couple of points that you should  
14 be looking for. And that's what I would like to do, so  
15 emphasize some points I ask you to look for.

16 First of all, I think very important -- it's been  
17 said before, but I can't emphasize it enough, that this is  
18 supposed to be an individualized decision regarding whether Gil  
19 Lopez is subject to that exclusion. And I note that in the  
20 lengthy opening statement of the insurance lawyer, that he used  
21 the term "they" perhaps a couple of dozen times. I lost track.  
22 He can't be making "they" claims. They've got to prove against  
23 Gil Lopez and not "they," whoever "they" is.

24 Second, the non-imputation clause of the policy --  
25 and I'm certainly not an expert in the policy, but I do think I



1 can look through there and see the things that I think are very  
2 important if I were in your position. And one is that non-  
3 imputation clause. In other words, you can find as the fact  
4 finder, that the exclusion applies to maybe Mr. Davis,  
5 Mr. Stanford and Ms. Holt, some others, but that non-imputation  
6 clause is in there to protect Gil Lopez from the spillover  
7 effect if you're finding that in somebody else.

8 I do want to perhaps chime in here on the legal  
9 discussions you were having with some of the other counsel with  
10 regard to Mr. Westheimer's potential testimony as a fact  
11 witness. Maybe I'm just -- don't remember the rules of  
12 evidence that well but I thought I did know that -- if he takes  
13 the stand as a fact witness and speaks about what Mr. Lopez  
14 told him and what his notes reflect, to me that's a statement.  
15 And they're offering it as a statement against penal interest.  
16 So there's not a question that there will be a statement.

17 And Rule 106 of the Federal Rules of Evidence, the  
18 rule of option and completeness, allows if one party's  
19 statement comes in, and if -- in all fairness to put it into  
20 context -- the balance of it should be allowed to be put in.  
21 So that's what we're relying on. If he, frankly,  
22 mischaracterizes badly -- the insurance lawyer mischaracterizes  
23 badly what Mr. Westheimer said that he gathered in his  
24 investigation by interviewing Gil Lopez.

25 I think when you find out what really was said, you

1 will see that it's not an admission. For example, he says that  
2 Gil Lopez and Mark Kuhrt admitted that they knew the numbers  
3 were false. There is no such statement. That statement was  
4 never made, and it never was reported.

5           And I think we've been together enough, you know I'm  
6 always kind to the other opposing counsel; and I don't want to  
7 vary from that. But let me just say this, I really do suggest  
8 that the insurance lawyer mischaracterized the evidence,  
9 particularly about the Westheimer interview. And I would  
10 expect that if I mischaracterized the evidence in opening  
11 statement, you would hold that against me. So I hope that if  
12 you find that the insurance lawyer, the insurance company  
13 lawyer, mischaracterized evidence, you'll hold that against the  
14 insurance company in the same way you'd hold it against me if I  
15 mischaracterized it.

16           **THE COURT:** To tell you the truth, I view this  
17 opening statement stuff as orientation of the evidence that  
18 they believe will -- orientation about what the evidence will  
19 show. And I'm not going to hold these opening statements  
20 against anybody.

21           **MR. ZIMMERMANN:** All right. Leaving aside who you  
22 hold it against, or nobody, please be alert, if you will --

23           **THE COURT:** That I appreciate.

24           **MR. ZIMMERMANN:** -- to the facts that many statements  
25 mischaracterized -- in many statements made by the insurance

1 company lawyer misstate the evidence.

2           **THE COURT:** Well, I'll be watching carefully, I  
3 promise.

4           **MR. ZIMMERMANN:** Good. And I'll leave the subject  
5 with this because you asked what other exception to the hearsay  
6 rule would allow the balance of that conversation to come in.  
7 And I would think state of mind exception was made for this  
8 type of thing. We're talking about why'd you do this; what was  
9 your state of mind. You might just want to file that aside  
10 that I would like you to consider the state of mind exception,  
11 as well as Rule 106.

12           Now, there's been a lot of discussion about whether  
13 you have to find criminal intent or not. I think that the  
14 final resolution was is that they have to at least suspect that  
15 there was some criminal conduct going on. And the Court's made  
16 it clear that it can -- like in any trial, you can consider  
17 direct and circumstantial evidence of that. But I suggest to  
18 you that when you look at the evidence and hear the actual  
19 witnesses that testify and look at the actual documents, you're  
20 going to find that that burden of persuasion -- and I call it  
21 the burden of persuasion -- that's on the insurance company  
22 will not be met, not by the evidence. And I'd like to  
23 summarize some key points of what I think if we tried to look  
24 at it from a higher level and not down in the weeds.

25           One is that the focus of the case -- my suggestion,

1 focus of the case, this all revolves around the sale of the  
2 CDs. That's what's got this thing started, is the sale of the  
3 CDs. We can get off on rabbit trails about other things like  
4 that, cricket club and all that kind of stuff, but it's the  
5 sale of the CDs that's at the heart of this case.

6           Secondly, I'd like the Court to try to make a note of  
7 how many times you hear that Gil Lopez had any contact with  
8 investors because he had zero contact with investors. He sold  
9 no CDs. He wasn't responsible at all for the marketing  
10 materials. The insurance company lawyer emphasized brochures  
11 that the investors relied on and made it seem like when he used  
12 the word "they" that somehow Gil Lopez had something to do with  
13 the construction of the those marketing brochures. There'd be  
14 zero evidence that Mark Kuhrt or Gil Lopez had anything to do  
15 with the preparation of those marketing materials.

16           The annual reports are going to be emphasized and  
17 have been already in opening statement. I would just like the  
18 Court to -- I request that the Court look for evidence that Gil  
19 Lopez had any responsibility at all about the accuracy of those  
20 annual statements. There will be no evidence that he was  
21 responsible for the accuracy of annual reports.

22           And if you look in the annual reports themselves,  
23 it's very clear in there, near the back of the book, that the  
24 accuracy of the numbers and the statements in the annual report  
25 is the responsibility of the board of directors. And it states

1 in there -- and then it says management -- SIBL -- I'm talking  
2 the SIBL annual reports. And then if you look in the very last  
3 page or two where it lists the bank management, you will not  
4 see Gil Lopez's name there. He had nothing to do -- he was not  
5 a member of the board of directors. He was not an officer of  
6 SIBL.

7           What was he? He was the -- he had the title of the  
8 Chief Accounting Officer of the Houston company called Stanford  
9 Financial Group Company. It was a services company that  
10 provided services to all the entities in the Stanford Financial  
11 Group affiliates.

12           By the way, there's a misnomer multiple times in the  
13 papers that I saw referring to SFG, Stanford Financial Group,  
14 as if there was an entity called Stanford Financial Group.

15           **THE COURT:** No, we all know there wasn't.

16           **MR. ZIMMERMANN:** Okay.

17           **THE COURT:** But there was -- but they definitely  
18 promoted themselves as a business of -- an integrated business  
19 that was called the Stanford Financial Group. Yeah, Stanford  
20 Financial Group. That's what was all over their marketing  
21 brochures. And they use it in other places.

22           **MR. ZIMMERMANN:** For the --

23           **THE COURT:** But there was no legal entity, and that's  
24 your point.

25           **MR. ZIMMERMANN:** Right. Well, actually, my point --

1 my point is, in addition to that, is that you have to look --  
2 you don't have to do anything but I'm asking you to concentrate  
3 on what Gil Lopez's responsibilities were. Who was he employed  
4 by; what was he responsible for? He was the Chief Accounting  
5 Officer of what they called "the company," Stanford Financial  
6 Group Company.

7 He was -- he had no responsibility for the accounting  
8 of SIBL. He had been with the company since 1997, and James  
9 Davis had -- knew him and then would -- and then when they were  
10 together, and -- because you're going to say why did he have  
11 any responsibility for gathering all these together.

12 Because one of his jobs was to, on a monthly basis,  
13 take all of those companies that we've talked about, all these  
14 affiliate companies, and under the Stanford umbrella -- each of  
15 -- each company of which had its own accounting department --  
16 and compile all of those monthly financial reports into this  
17 red book and get it up to Davis and Stanford on a monthly  
18 basis. That was his responsibility as the service company  
19 Chief Accounting Officer. And that's how that came about. And  
20 Mr. Kuniansky has already gone into it with you, and I'll defer  
21 to that and come back slightly later.

22 Another thing I'd request that you look at, Judge, is  
23 -- you know from having presided over this case for the last 20  
24 years, it seems -- I think it's more like a couple of months --  
25 that there are millions of documents in this database. And

1 when you look at the evidence that the insurance company  
2 lawyers are going to represent to you, you're going to be able  
3 to count on the fingers of your hands how many emails are  
4 authored by Gil Lopez. And when you do see those few emails,  
5 you're going to see that most of them are forwarding an email  
6 from someone else to someone else. And that he only responds a  
7 very few times with words like print or the word Pelican or  
8 that even a couple of them don't even have anything to do with  
9 anything at issue in this case, like a foreign bank, a  
10 Venezuelan bank, or something from another entity that has --  
11 it's not in play in this case.

12           You have ruled -- I'm not sure if it was last night  
13 or this morning, but I just found out about it this morning --  
14 you ruled that much of the Van Tassel report will come in. Her  
15 conclusions as to the open issue will not come in. But as I  
16 read your report, and I hope I'm not misreading it, the  
17 investigative work that she did you're going to consider. So,  
18 I'd like you to make a little checklist and see how many times  
19 she finds Gil Lopez did anything wrong. Zero.

20           It's reported that the receiver paid her company  
21 upwards of \$13 million for her work. And there's not one  
22 finding of wrongdoing by Gil Lopez in any of her reports.

23           **THE COURT:** I didn't know it was that high.

24           **MR. ZIMMERMANN:** I think that -- I think it's been --  
25 I think it's -- the way I've come to that conclusion is

1 probably not in evidence here, but it dealt with the issue  
2 about whether she could testify or not. And, you know, Judge  
3 Godbey in Dallas told me that they paid half of the fee, and  
4 that's how --

5 **THE COURT:** Well, yeah, but it's half of the fee used  
6 for certain -- generated for certain tasks. But anyway --

7 **MR. ZIMMERMANN:** Anyway --

8 **THE COURT:** -- none of us know.

9 **MR. ZIMMERMANN:** -- it's millions of dollars,  
10 millions of dollars.

11 **THE COURT:** Yeah, clearly.

12 **MR. ZIMMERMANN:** Okay. My point was she didn't find  
13 any fault --

14 **THE COURT:** Yeah. I got it.

15 **MR. ZIMMERMANN:** -- by Mr. Lopez, no matter what it  
16 cost to find that. I guess my idea about the millions is,  
17 number one, how it shocked me. I'm in the wrong profession.  
18 And number two, that if you really did spend that much money,  
19 it must have been a very thorough investigation; and it still  
20 didn't find any wrongdoing by Mr. Lopez.

21 I read, also with interest, your ruling; and I hope  
22 I'm not misstating it with regard to Mr. Davis' plea and his  
23 government-written statement of factual basis and the  
24 allocution. And I understand that --

25 **THE COURT:** Which he agreed to.



1           **MR. ZIMMERMANN:** Yes. That the Court will -- that he  
2 signed -- that the Court will consider the inculpatory  
3 statements as to Mr. Davis but not as to any other party. I'm  
4 not sure that I read that exactly right.

5           **THE COURT:** Yeah, I -- yeah, it's ambiguous. I admit  
6 it.

7           **MR. ZIMMERMANN:** No, I think it's clear, Judge, that  
8 you're not going to consider it for anybody else except Davis,  
9 which is --

10          **THE COURT:** Well, I want to see what the evidence  
11 shows.

12          **MR. ZIMMERMANN:** Well, just in case, I just want the  
13 Court to remember that -- what the Supreme Court has said, the  
14 U.S. Supreme Court has said, about the reliability of a witness  
15 who's --

16          **THE COURT:** I'm very familiar with that.

17          **MR. ZIMMERMANN:** Right, I knew you would be. And so  
18 -- well, I'd probably agree with some of the more colorful  
19 descriptions by Mr. Kuniansky. I would at least agree with --  
20 know we agree that he is the classic bought witness and traded  
21 his testimony for the leniency he's going to be shown by the  
22 government.

23                 And so to the extent that it even applies, we would  
24 say that his -- you have made it real clear from the beginning  
25 that you're going to apply reliability standard as to what

1 evidence you will consider, applying the rules of evidence.  
2 But nonetheless, as I understand it, your focus is on the  
3 reliability of the evidence. And I would just reemphasize that  
4 James Davis' reliability has got to be at the low range as it  
5 deals with -- when he's trying to inculcate other people.

6 **THE COURT:** Yeah, well, I will be alert to that.

7 **MR. ZIMMERMANN:** Sure. And -- and then --

8 **THE COURT:** I'm not commenting on his reliability.

9 I'm just simply saying I'm alert to the typical --

10 **MR. ZIMMERMANN:** Right.

11 **THE COURT:** -- concerns that one has --

12 **MR. ZIMMERMANN:** And that's all I can ask --

13 **THE COURT:** -- regarding cooperating witnesses.

14 **MR. ZIMMERMANN:** -- and that's all I can ask you to  
15 do. And then I leave you with the points to look at before I  
16 move into the three areas of concern by the insurance company  
17 is that -- if you look at -- there'll be no evidence  
18 introduced, zero, that Gil Lopez had any economic gain or  
19 consideration beyond his ordinary, normal state of compensation  
20 with SFGC, S -- Stanford Financial Group Company.

21 And you would think that somebody who has been  
22 branded by the insurance company lawyer this morning as an  
23 equal participant in this multibillion dollar Ponzi scheme  
24 wouldn't have subjected himself to the potential exposure if  
25 his reward wasn't considerably above what his normal salary

1 would be for someone working --

2 **THE COURT:** Is there evidence what his salary was?

3 **MR. ZIMMERMANN:** I don't think that that became an  
4 issue. I don't think there's going to be any evidence of that.  
5 What I'm saying is I don't think that the -- excuse me -- that  
6 the insurance company is going to introduce any evidence that  
7 there was any economic gain --

8 **THE COURT:** Other than his salary?

9 **MR. ZIMMERMANN:** -- other than his standard bonus  
10 salary compensation.

11 **THE COURT:** Right, right. But to me the devil's in  
12 the detail about that. That's true for Mr. Kuhrt and anyone  
13 else. I mean, if the -- just by way of example, if the salary  
14 is \$2 million for what they were doing, it's one thing. If the  
15 salary was 200,000 or 20,000, it's another thing. And -- or if  
16 there are bonuses paid based on performance, I mean I'm  
17 thinking about the Enron situation. You know, one of the most  
18 inculpatory things was the bonus structure for certain of those  
19 people.

20 **MR. ZIMMERMANN:** We may ask for leave of the Court to  
21 supplement the exhibit list. But I -- I'll tell you how I  
22 viewed this. This is my fault and not Mr. Lopez's. I believe  
23 these lawyers have the burden of persuasion. And if they had  
24 thought that they're -- or had any evidence whatsoever that  
25 there was something like an extraordinary salary or an

1 extraordinary bonus, they would be required to bring it to you.  
2 And all I'm telling you is you aren't going to see it anything  
3 like that.

4 **THE COURT:** Okay.

5 **MR. ZIMMERMANN:** If you want to know what it actually  
6 was, I'll get you the number.

7 **THE COURT:** Well, fine. I don't know. I mean, I'll  
8 just wait and see what all the evidence turns out to be. Thank  
9 you.

10 **MR. ZIMMERMANN:** Now, let's move to the revenue  
11 projections. Here is -- here's what I'd like to ask the Court  
12 -- there's about five things I'd like you to -- I'm not going  
13 to go into great detail because I think Mr. Kuniansky went --  
14 both lawyers that have spoken and gone into it.

15 The points that I think are most important to  
16 emphasize from Mr. Gil Lopez's point of view is: only  
17 Mr. Stanford and Mr. Davis knew the content of the investment  
18 portfolio. And that was conceded in opening statement by the  
19 insurance company lawyer this morning. I mean, that's just not  
20 in dispute. And I know it may seem odd. And it did seem odd  
21 to us when we got the case, why these people didn't know but  
22 they didn't; and that's conceded. And they get that from  
23 Mr. Davis's statement as well as other sources of information.

24 Second is that Mr. Lopez relied entirely on Mr. Davis  
25 as the Chief Financial Officer and as an accountant to provide

1 accurate investment revenue numbers. Now, why do I think  
2 that's important to ask you to look for that? Because the  
3 insurance company lawyers have suggested that somehow Gil Lopez  
4 knew the numbers were false. He actually said that to you in  
5 opening statements this morning. He said "they knew the  
6 numbers were false, and yet they reported them."

7           They did not know the numbers were false. There's no  
8 evidence they knew the numbers were false. It's just the  
9 opposite. He -- Mr. Davis was the Chief Financial Officer, not  
10 only at SIBL, but of SFGC, all of them. He was the Chief  
11 Financial Officer for just about every entity.

12           **THE COURT:** Davis.

13           **MR. ZIMMERMANN:** Davis. And he was a cofounder and a  
14 -- and the college roommate of Mr. Stanford. And there's just  
15 no evidence that it would be something that Mr. Lopez should  
16 not rely on him to be providing accurate numbers.

17           And the idea of the compilation of the red books, I  
18 think that's been gone into. I'm not going to go into a lot of  
19 detail. But if you will look, you will see that there are  
20 emails in there; and there are going to be exhibits where  
21 you're going to see that, based on this budget projection  
22 influenced by past historical trends, that in order to expedite  
23 getting back the SIBL reports so they could go into the red  
24 book, that Mr. Kuhrt, sometimes directly, sometimes  
25 through somebody that worked for Mr. Kuhrt, sometimes through

1 Mr. Lopez, would send this projected approval revenue number up  
2 to Mr. Davis, and he would true it up and send it back.

3 And you will see documents where he makes changes;  
4 where Davis says this is okay or change this or change that,  
5 add this, subtract that. And you'll see it had -- and it was  
6 done by -- sometimes by fax. You'll see faxes in there with  
7 writing on it; they're sometimes by email; sometimes by phone  
8 which there's not a record of other than when Mr. Westheimer  
9 asked these questions; and we don't know whether you're going  
10 to consider that or not but I don't know whether you are so in  
11 the opening statement, I want you to -- if you decide you do  
12 think it's either under 106 or state of mind exception, that  
13 the true ups came email, fax, in person and sometimes on the  
14 telephone.

15 And so to Gil Lopez, he was doing what he was  
16 supposed to be doing. Davis was truing these numbers up. He  
17 accepted that as being true. And that's the number that then  
18 went to Banu Persuad. And then SIBL accounting department  
19 would put theirs together, send it in; and it would go up in  
20 the red book with all the other entities.

21 And moving to the loan shareholder, the second issue,  
22 the lawyer for the insurance company tried to make the  
23 undisputed fact that the loan shareholder numbers were tracked  
24 into some badge of criminality. It's just the opposite.  
25 Mr. Lopez and Mr. Kuhrt tracked to the dollar what the loan to

1 shareholder was. And they traced it through. And there were  
2 -- it's in both post findings of facts from both parties, I  
3 think, that there were promissory notes at some period of time.  
4 It varied over time. Promissory notes signed by Mr. Stanford.  
5 There were notes that were serviced, the newer ones that  
6 weren't. Then there were -- then there was this switchover to  
7 the affiliates and so forth.

8 But the point is this, is that that loan to  
9 shareholder was tracked. Is that a badge of fraud? Is that an  
10 indication of fraud? They're going to keep track of a fraud?  
11 Why would someone who knowingly would do that would keep track  
12 of the fraud and leave this trail? I think it cuts the other  
13 way.

14 Also, the evidence is going to show that Mr. Lopez  
15 was not responsible for the SIBL accounting or annual reports.  
16 The insurance company lawyer this morning made it look like Gil  
17 Lopez was the only guy that was responsible for the SIBL annual  
18 reports that may have gone out to the financial advisors who  
19 may have given them to the investors. He wasn't responsible  
20 for that. And we've talked about that. He didn't sign them.  
21 They were signed only by Mr. Stanford.

22 And then it's uncontested, I think, that Gil Lopez,  
23 on more than one occasion, told Mr. Davis that when they were  
24 switching in 2005 to the International Financial Reporting  
25 Standards that his loans, these related-party transactions,

1 required a footnote. Undisputed that he told him that, I  
2 think, and also undisputed that they didn't appear. We're not  
3 contesting that.

4 But -- and this is where I think the expert testimony  
5 is important and helpful to the Court -- what was the -- what's  
6 the duty of an accountant who's not a CPA, who's not working  
7 for a publically-traded company, a privately-held company, what  
8 is his responsibility when he informs his superior, who is an  
9 accountant himself, and who's a Chief Financial Officer, that  
10 an entry needs to be footnoted; and that superior says "I'm not  
11 going to do it," and actually takes a footnote out of a draft  
12 and actually removes it? What's he supposed to do, report that  
13 to the SEC? Why? That's an accounting standard.

14 And as this Court well knows -- I think you've  
15 instructed in cases that I've been on here -- that the  
16 violation of an accounting standard, like any other civil  
17 matter or regulation, is not a crime. It's not a crime in and  
18 of itself. And so it's not like they're observing a crime  
19 being committed; and ,therefore, Mr. Lopez would resign or go  
20 to the FBI or the SEC. It was an accounting principle.

21 There are a lot of accounting principles that are  
22 perhaps not followed the way they're supposed to. And if an  
23 accountant who's aware of it reports that up the chain, what  
24 else is he required to do? And I think that the expert will  
25 say -- and I think that that's an explanation for what



1 Mr. Westheimer meant when he lodged the expert opinion that,  
2 given these facts that I've just given to you, that it was  
3 appropriate for what he did. In other words, he can't -- he is  
4 supposed to report it. He's supposed to tell his boss.

5 It's like, you know, if your -- I don't want to  
6 get --

7 **THE COURT:** Well, okay. This is -- we're at --  
8 you're shifting over into --

9 **MR. ZIMMERMANN:** Argument.

10 **THE COURT:** -- closing argument.

11 **MR. ZIMMERMANN:** There we go. Okay.

12 **THE COURT:** It's not easy to be in a civil case.

13 **MR. ZIMMERMANN:** It's terrible.

14 **(Laughter)**

15 Also, let me just ask you to remember that the  
16 insurance company lawyer this morning in his opening statement  
17 said that the violation of that accounting standard violated  
18 the laws of Texas and the federal laws. Violating an  
19 accounting standard is not a violation of federal law or state  
20 law.

21 **THE COURT:** Okay.

22 **MR. ZIMMERMANN:** And Mr. Lopez also had some degree  
23 of comfort, if you will, that the external auditors who did not  
24 work for any Stanford Financial Group affiliate would be  
25 checking the footnotes and the necessity for footnotes.

1           **THE COURT:** Did Mr. Lopez ever meet with the  
2 auditors?

3           **MR. ZIMMERMANN:** Did he ever meet with the auditors?

4           **THE COURT:** Meet an auditor, do any -- see a physical  
5 person from the auditors?

6           **MR. ZIMMERMANN:** Yes. Yes, they would come in --  
7 well, sometimes Mr. Lopez would be involved and --

8           **THE COURT:** Are you sure?

9           **MR. ZIMMERMANN:** He didn't meet with the -- he didn't  
10 meet with the actual auditors. He knew when Hewlitt (phonetic)  
11 was coming in to audit SIBL. I'm not sure what your question  
12 is. Did he actually sit down and meet with them?

13           **THE COURT:** Well, yeah. But let's -- I'll just leave  
14 the question hanging.

15           **MR. ZIMMERMANN:** And then with regard to the -- and  
16 also, before I leave that external auditor issue, not only did  
17 he have a right to rely on the external auditor to verify the  
18 requirements for footnoting, he also had, I think -- would be  
19 entitled to rely on them to verify the accuracy of those  
20 recorded revenue numbers. That's what an external auditor is  
21 supposed to do. They're supposed to go in and look at the bank  
22 -- look at the bank statements, if they're recording interest;  
23 look at the stock statements that the company would have  
24 gotten. And he had a right to rely on it when they said that  
25 those statements were accurate.

1           **THE COURT:** Okay.

2           **MR. ZIMMERMANN:** Now, with this two Islands Club, it  
3 seems that there is some -- this parting of the ways with  
4 regard to what the facts are, and I will rely on the documents  
5 with regard to whether this was ever booked. The two of --  
6 Island --

7           **THE COURT:** I agree with that. Let's move on because  
8 it does seem like nobody really knows, and I want to see the  
9 documents.

10          **MR. ZIMMERMANN:** Okay. Well --

11          **THE COURT:** I mean, that is, not nobody knows. It's  
12 that I don't know that that would be appropriate for us to be  
13 guessing here.

14          **MR. ZIMMERMANN:** Okay. Well, let me just -- as what  
15 -- as an opening statement, can I tell you what the evidence --  
16 I expect the evidence to show?

17          **THE COURT:** Yeah.

18          **MR. ZIMMERMANN:** Is that it was unconsummated.

19          **THE COURT:** Well we all know that.

20          **MR. ZIMMERMANN:** Well it didn't sound like it did,  
21 because Mr. -- well the insurance company lawyer said this  
22 morning that it was booked back in June of 2008.

23          **THE COURT:** Booking is different from consummated.  
24 That's the whole issue. That's the whole issue.

25          **MR. ZIMMERMANN:** Okay. Well our position is -- and

1 we believe the evidence will show it was neither consummated  
2 nor was it booked.

3 **THE COURT:** Okay, there you go. And I got that from  
4 Mr. Kuniansky, so I'm on the -- I'm on the program. I  
5 understand now.

6 **MR. ZIMMERMANN:** And I just would like to point out  
7 also, in addition, that Mr. Kuhrt telling Mr. Davis that an  
8 appraisal and legal work was needed, so did Mr. Lopez, on  
9 different occasions told Mr. Davis that he needed an appraisal  
10 and that legal documents need to be drafted.

11 And the last thing on that, Judge, is this: the two  
12 Island Club unconsummated transaction never went to any  
13 investors. There's going to be zero evidence that that ever  
14 left the internal workings of a planning session. It did not  
15 go into any report that went to the investors.

16 First of all, they didn't even start working on this  
17 hypothetical scenario, Mr. Kuhrt, until December/January; and  
18 then this place closed down in February. So there wouldn't  
19 have been any report that it could have gone out in. It didn't  
20 go out. But I just wanted to make sure that -- because, as we  
21 know, reliance and so forth by investors is an important  
22 factor, and they couldn't have relied on it because it never  
23 went out.

24 That's my brief opening statement.

25 **THE COURT:** Thank you.

1           **MR. ZIMMERMANN:** Thank you.

2           **THE COURT:** Okay. Mr. Bennett, the good news for you  
3 is that I've heard from all these other people; and you can  
4 keep yours nice and short if you prefer.

5           **MR. BENNETT:** I do, your Honor.

6           **THE COURT:** But I would like one.

7           For witness purposes, I don't have my calendar open,  
8 but we will take a lunch break after this and start up with  
9 witnesses as soon as we get back from lunch. We will have a  
10 one-hour -- I'd like to have a 45-minute lunch break. Can you  
11 live with that? Nobody ever accused me of getting people fat  
12 during my trials.

13           **MR. CHASNOFF:** May I ask you something? Your Honor,  
14 is there someplace we'll be able to grab something that  
15 quickly?

16           **THE COURT:** Well, since you have all these people, I  
17 suggest that you go out and buy a bunch of -- this is not a  
18 joke -- I suggest you go out before 2:00 o'clock, because  
19 everything closes in the tunnel at 2:00; and you probably might  
20 prefer to get something better than what they serve in the  
21 cafeteria. But that cafeteria is open until 2:00 also. And  
22 the cafeteria food is fine; it's very plain. They have  
23 delicious popcorn.

24           **(Laughter)**

25           Delicious popcorn. Very salty. Anyway, the whole

1 point is that I would suggest you send out one of your number  
2 and buy sandwiches.

3           The other thing is, I did not tell you, but there are  
4 attorney prep rooms on this floor. And if you ask in chambers,  
5 we can give you keys to rooms so you each can have your own  
6 room. I only have one technically assigned to me. But if  
7 there are no other trials going on on this floor, then I have  
8 access to, I think, three. I think there are a total of three.  
9 So that's a place where you can eat your food, which is why I  
10 didn't think of it.

11           The criminal lawyers know all about the rules of the  
12 road on the food, so take it from them; they are very  
13 experienced.

14           Okay, Mr. Bennett,

15           **MR. BENNETT:** Thank you, your Honor. I'm in a little  
16 different position for a number of reasons than any of the  
17 other attorneys who've come before the Court. Obviously, my  
18 client -- and I'm just going to be on this very, very briefly  
19 -- is still in jail, still doesn't have any access to the  
20 internet, still has the problems of trying to do discovery.

21           And I bring that up only, your Honor, for this  
22 reason, to say that I've been on the case for 68 days; and in  
23 four months, we have to go to trial in the criminal case. And  
24 that puts a little bit of a different burden and a little bit  
25 different responsibility on my shoulders, which I welcome.

1           Because of all the people in this room, of every  
2 person sitting here, there's only one person that has created  
3 an international, financial institution of the integrity of  
4 Stanford Company, Stanford International Bank. And I am proud  
5 to say that, and I'll continue to say that. And I think once  
6 we get through all the evidence, you will see that there wasn't  
7 a Ponzi scheme. There wasn't any type of fraud committed. And  
8 there was not any misrepresentation.

9           And it's also interesting -- the Court makes a brief  
10 -- a statement or alluded to the fact about the financial  
11 situation in 2007 leading up to 2008. And of all the  
12 institutions we're going to hear about, the Stanford  
13 International Bank took no federal loans. It took -- there was  
14 no one that bailed out. And they had entities that they could  
15 have applied for federal loans, and they didn't do that.

16           Now, that's important, seeing what a horrible  
17 situation we have. They went without a government bailout.  
18 The United States was in \$80 billion negative. And during that  
19 same period though, your Honor, the evidence will show because  
20 from Van Tassels' report that over \$2 billion was paid out in  
21 early redemptions by Stanford International Bank when people  
22 wanted to be paid.

23           In fact, not one investor -- up until the time that  
24 this government, which is sitting back here listening to all  
25 the words we're saying -- which we realize. This government,

1 before they came in and took over the bank, nobody lost any  
2 money. And those would be the facts that we intend to prove  
3 here.

4 Now, more importantly than even that, though, is the  
5 fact that this was a -- an entity that had clients in 136  
6 different countries; six continents; had offices in Houston,  
7 New York, Boston. We can go on and on. We'll show that at the  
8 time we put on our evidence.

9 In 2006, Stanford's North American Regional  
10 Institutional Sales and Trading Company had values of 13.3  
11 billion, and it grew to 19 billion in 2007; and its projection  
12 to be over 25 billion in 2008. And that's important, your  
13 Honor, because this was an ongoing, honest, highly regulated,  
14 highly regulated industry that Stanford International Bank and  
15 its entities were part of.

16 Now, the importance of the witnesses that we're going  
17 to bring to the Court include a woman by the name of Giselle  
18 James (phonetic). And Mrs. James is a lady in Antigua, and she  
19 grew up on the island; and on the island, knew of the high  
20 regards that Stanford and Stanford companies held; knew about  
21 his involvement in cricket; knew about his involvement in  
22 banking; knew about his philanthropic activities. And it was  
23 her dream to go to work for Stanford someday when she finishes  
24 her education.

25 In fact, she fulfilled that dream and started in the



1 Human Relations Department with Stanford. And then after that,  
2 she was promoted to be one of the chief promoters of the Island  
3 Club that we've heard about. And we'll -- if the Court allows  
4 into evidence, we'll show you how that entity was developed;  
5 how that was a dream of Mr. Stanford to make an exclusive,  
6 ecological village of people that would come together,  
7 certainly have wonderful things, but also be one of the main  
8 resources of income and productivity for the country of  
9 Antigua.

10 Now, we've heard that this may have been pie in the  
11 sky, but that's not correct. Because we're going to show you  
12 photos identified by Giselle James of the things that were  
13 built and in place. And also that she understood what -- how  
14 the financing, at least initially, was put together or how much  
15 it cost to be a member and that type of thing. So I think it's  
16 going to be very important for the Court to understand the  
17 value of the real estate, and how that went forward. So it  
18 wasn't just something that was dreamed up.

19 In addition to that information, your Honor, we'll  
20 also call Mr. Bebel, who, if the Court allows him to testify,  
21 will talk about the importance of SEC regulations and the  
22 importance of what Stanford entities did; how highly regulated  
23 they were; and how the regulatory agencies, time and time  
24 again, gave them a clean bill of health.

25 There were questions about whether even the CD was a

1 security. I'm not going to get into all that, but that was a  
2 question at one time. But it was actually a security. And  
3 so --

4 **THE COURT:** Are you taking a position on that now?

5 **MR. BENNETT:** I think I'll let Mr. Bebel explain that  
6 to the Court, if the Court would allow him.

7 **THE COURT:** Okay. But you --

8 **MR. BENNETT:** There certainly is testimony, and  
9 there's certainly evidence, and there's certainly documents.  
10 In fact, we've heard something about Mr. Sjoblom; and he, in  
11 numerous statements, said this -- and he had a history of  
12 working for the SEC -- he said that this was not a security.

13 **THE COURT:** Right. That's the position I thought you  
14 were taking.

15 **MR. BENNETT:** Well, I will let our expert go into  
16 that, your Honor. I don't see it as a security. I think it's  
17 -- I think that there shouldn't have been regulation. And  
18 certainly our position is the SEC jumped the gun because of  
19 Bernard Madoff and came in and got this. And I think that's --  
20 was --

21 **THE COURT:** Right, but that's -- that's not --

22 **MR. BENNETT:** That's not evidence, I understand that,  
23 Judge.

24 **THE COURT:** No, I understand that. But that's not --  
25 for my purposes here, it doesn't need to be a CD. I don't care

1 one way or another because there are a variety of predicate  
2 crimes that the Underwriters are relying on for the money  
3 laundering. And I want you to know that I understand and  
4 foresaw the question of whether or not this was a CD as being a  
5 big one for you in other settings. Therefore, I am not  
6 interested in the Underwriters relying on the securities aspect  
7 because it introduces a host of issues that I don't need to  
8 deal with.

9 **MR. BENNETT:** We just want a little hint of what  
10 might happen in January, your Honor. Just laying it out a  
11 little bit.

12 **THE COURT:** Okay. But I'm telling you the word  
13 securities does not need to come up because I don't care.  
14 We've got mail -- they're arguing about mail fraud and wire  
15 fraud and some other predicate issues, crimes that don't have  
16 anything to do with securities. So, I just thought I'd lay it  
17 out there. I am not going to worry about whether this is  
18 security and don't care what you guys argue in another setting.  
19 I don't want to bring that in and complicate our lives  
20 unnecessarily here.

21 **MR. BENNETT:** I understand, your Honor. I  
22 understand.

23 Let me also talk just a minute about our witnesses.  
24 I've talked about Giselle James. Mr. Bebel has an incredible  
25 history with the SEC, and I think the Court found him very

1 interesting in what he says in his points in his report and his  
2 background.

3 The Court has ruled on a Dr. Lehrer. I think that as  
4 to the issue of real estate valuation, if some -- something --  
5 evidence comes in, we at least ask the Court to keep an open  
6 mind that maybe he'd be accepted by the Court in rebuttal, but  
7 we'll wait and see how that develops.

8 **THE COURT:** Well, you guys go second. So in terms of  
9 rebuttal, I don't know. But you want to use him in your case  
10 is what I'm hearing. I'll go back and look at his report for  
11 that purpose. Okay, because I didn't. He has many claimed  
12 expertises. And I didn't focus specifically on that although I  
13 thought what he wrote in the beginning of that report was not  
14 worthy. So I'll go back and read it. And if you want to make  
15 a separate proffer sometime before he testifies as to exactly  
16 what his opinion will be, I will entertain that.

17 **MR. BENNETT:** Well he's the only one that can really,  
18 with credentials, to talk about the value of real estate. And  
19 so I'll bring that up at the proper time.

20 **THE COURT:** Yeah.

21 **MR. BENNETT:** And as the evidence develops, no one  
22 knows exactly what's going to happen, so maybe that will also  
23 be part of this.

24 **THE COURT:** That's fine. That's fine.

25 **MR. BENNETT:** Okay.

1           **THE COURT:** But I'm just going to tell you, you need  
2 to give not only me -- less important me -- but you need to  
3 give the rest of the crew, all the parties, notice of what  
4 Lehrer's opinion or opinions would be and the basis for those  
5 opinions. It doesn't have to be a big, long report but it does  
6 need to lay out in summary fashion where we can tie it in to  
7 the evidence a little bit what opinions he's going to offer so  
8 we can measure against doubt. But, okay, that's just a  
9 practice tip for -- thanks, you can proceed.

10           **MR. BENNETT:** Thank you, your Honor. And we'll take  
11 that to heart and follow those directions, obviously.

12           **THE COURT:** Thanks.

13           **MR. BENNETT:** Your Honor, just as to what the  
14 evidence will show, though, for Mr. Stanford is the following.  
15 And part of it we've already heard because all the emails, all  
16 the actions, all the accounting, you heard that there were  
17 things sent to Mr. Davis. You heard that Mr. Davis sent things  
18 down.

19           For instance, you heard a statement about these red  
20 books were prepared. There will not be one witness that comes  
21 and testifies about the red books being sent to and received by  
22 Mr. Stanford. No one will take the stand and say "Yes, we  
23 sent that to him, and he received it." There's no information  
24 whatsoever about that. That's important because all of this --  
25 and I think as the evidence develops we'll show this

1 combination of the Chief Financial Officer and Chief Investment  
2 Officer of Holt and Davis were in tandem throughout this whole  
3 thing.

4           And they were the ones that made the decisions on  
5 financing, on disclosure, on representations. And we'll show  
6 that by emails; and we'll show that by charts; and we'll show  
7 that by -- for instance, the testimony of Ms. Holt when she  
8 testified in front of the SEC and what she said in front of the  
9 SEC is very important about her relationship to Mr. Davis, how  
10 information was exchanged with Mr. Stanford, my client  
11 completely out of the loop, completely out of the loop.

12           And so I think that's going to be very important for  
13 the keep -- Court to keep an open mind to see how all this  
14 information flowed up to Laura Holt and then to Mr. Davis. In  
15 fact, in one -- there's one piece of evidence that we'll show,  
16 which is a request at the time all this was kind of falling  
17 apart, a financial advisor asked for specific information for  
18 one of his clients. That went to Laura Holt; she sent two  
19 different emails to Mr. Davis saying explain all this to me.  
20 So I think that's going to be very important as to that  
21 relationship and how that road went -- was traveled by those  
22 two together. The hour's late, your Honor.

23           There are other things I want to bring out but I  
24 think I'm going to leave it like that, and I know the Court  
25 will keep an open mind as to the evidence that's presented by

1 the insurance company. And then when we put on our evidence to  
2 show that Mr. Stanford was not in charge of a Ponzi scheme; he  
3 did not commit fraud; he did not make false statements. He ran  
4 a legitimate business. And he was seen as a very, very fine  
5 businessman. And we'll conclude with that.

6 **THE COURT:** Okay. Yes, sir?

7 **MR. CHASNOFF:** With the Court's permission, I would  
8 like to be excused for this afternoon and work with witnesses.

9 **THE COURT:** Sure.

10 **MR. CHASNOFF:** So I'm not going to be here.

11 **THE COURT:** You people can come and go, as long as  
12 there's one lawyer in the room. I think I may have written  
13 this in some order, but it's one lawyer per witness per party.  
14 Okay? That's all I'm asking. Other than that, we are going to  
15 proceed ahead. The lawyers can excuse themselves whenever they  
16 want; I don't care. If you want to go do other things, that's  
17 fine. I just need one lawyer per party in the courtroom at all  
18 times. With that, I feel it's sufficient, and we will proceed  
19 with the testimony or argument. Okay?

20 All right, it is now 1:26. Why don't you come back  
21 here at 2:15. Okay? Thank you all very much.

22 **MR. BENNETT:** May we approach, your Honor?

23 **THE COURT:** Yes.

24 **THE MARSHAL:** All rise.

25 **(Begin bench conference at 1:26 p.m.)**

1           **MR. BENNETT:** I'll ask for us to have --

2           **THE COURT:** The conference with you?

3           **MR. BENNETT:** Yes. Is that possible?

4           **THE COURT:** Yes, it is. But just with the Stanford  
5 people, right?

6           **MR. BENNETT:** That's correct, your Honor.

7           **THE COURT:** Okay. Is that agreeable --

8           **MR. UNIDENTIFIED:** Yes, your Honor.

9           **THE COURT:** Does anyone -- this is on the record.  
10 We're just at the side bar. The Stanford people need a  
11 conference with me about their attorney representation and some  
12 stuff like that. Is there any objection to me meeting with  
13 them? We will not be discussing the substance of the case, I  
14 can promise that.

15           **MR. CHASNOFF:** Nothing; no objection from  
16 Underwriters, your Honor.

17           **MR. ZIMMERMANN:** Does that meeting have anything to  
18 do with any of the other co-Plaintiffs?

19           **THE COURT:** No, no, it does not.

20           **MR. ZIMMERMANN:** Okay.

21           **THE COURT:** Any objection.

22           **MR. ZIMMERMANN:** None.

23           **THE COURT:** And Mr. Shidlofsky?

24           **MR. SHIDLOFSKY:** No.

25           **THE COURT:** Okay. Thank you all.



1 (End bench conference at 1:27 p.m.)

2 (Voices and laughter heard in the courtroom)

3 THE COURT: Why don't we go into the jury room?

4 MR. BENNETT: That's fine. Whatever the Court --

5 THE COURT: The jury room is --

6 MR. BENNETT: Is Mr. Stanford going to be brought in  
7 there?

8 THE COURT: Yes. It's big enough. We can all be in  
9 there. You want him in there, right?

10 MR. BENNETT: Yes, I do.

11 THE COURT: Marshal?

12 (Voices and laughter heard in the courtroom)

13 THE MARSHAL: Yes, ma'am.

14 THE COURT: Can we take Mr. Stanford into the -- can  
15 we take Mr. Stanford into the jury room with us? I want to go  
16 in there and meet with him and his lawyers.

17 THE MARSHAL: Just as long -- if I can be in there  
18 with him?

19 THE COURT: Yeah, you're going to have to be -- oh,  
20 wait. Counsel, counsel, counsel?

21 THE MARSHAL: That's the only thing --

22 THE COURT: Yeah, yeah. The one thing --

23 MR. UNIDENTIFIED: All of us?

24 THE COURT: No. Thank you, though. We need the  
25 marshals in there. The marshal can be sworn to secrecy, but

1 the marshals have to be in there.

2 **MR. BENNETT:** Sure, that's fine by us, your Honor.

3 **THE COURT:** Okay, I just wanted to let you know.

4 **MR. BENNETT:** He looks like a trustworthy guy.

5 **(Laughter)**

6 **THE COURT:** I'm sure he is. Okay, but if the --  
7 Marshals, you are not -- not, not -- this is on the record.  
8 You are not allowed to discuss what you hear with anyone,  
9 anyone. You are going to be in with me, with the attorneys;  
10 it's of the highest confidentiality.

11 **(Voices heard in the courtroom)**

12 **THE MARSHAL:** Yes, ma'am.

13 **THE COURT:** Even your bosses, no one; and if you have  
14 some need to talk about it, you have to talk to me first.

15 **THE MARSHAL:** Yes, your Honor.

16 **THE COURT:** Okay, thank you very much.

17 **THE MARSHAL:** Are we doing this right now, your  
18 Honor?

19 **THE COURT:** Yes. Thank you.

20 **(Recess taken from 1:29 p.m. to 2:30 p.m.)**

21 **THE COURT:** Please be seated. Okay. Well, our ranks  
22 have been thinned out, but are you ready to go?

23 **MR. LANE:** On the other side, your Honor.

24 **THE COURT:** Uh-huh.

25 **MR. LANE:** Your Honor, underwriters calls Dr. Robert

1 Conte.

2 THE COURT: Okay.

3 MR. KENNEDY: Your Honor, Christopher Bebel, witness  
4 for Allen Stanford -- expert witness -- is here and I'd ask  
5 permission that he be permitted to sit in the jury box with the  
6 other experts?

7 THE COURT: Sure. Mr. Bebel? Okay. You may join  
8 the other experts in the jury box.

9 MR. KENNEDY: Thank you, your Honor.

10 THE COURT: There's an irony to this.

11 MR. SHIDLOFSKY: -- for a second sidebar?

12 THE COURT: Okay.

13 (Begin sidebar conference at 2:31 p.m.)

14 MR. SHIDLOFSKY: This is completely non-substantive.  
15 We want to borrow our books back for a second and get some  
16 copies made. It's --

17 THE COURT: Which ones?

18 MR. SHIDLOFSKY: It's the Lopez exhibits. And there  
19 should be joint exhibits.

20 THE COURT: That's here.

21 MR. SHIDLOFSKY: Yes.

22 THE COURT: Okay. While we're at the sidebar, I did  
23 talk to the Stanford crew at the lunch hour and at some point  
24 in the middle of the afternoon I'm going to want to put on the  
25 record a summary of the conversation we had, which was about

1 attorney matters. It also came up about the possibility of  
2 negotiations with underwriters. And so, at some point, maybe  
3 you and the Stanford people can fill me in in time to get --

4 **MR. LANE:** Sure, your Honor.

5 **THE COURT:** Okay? It's not a rush at all.

6 **MR. LANE:** Yes.

7 **THE COURT:** I want to hear evidence and all that.  
8 So, it's just one of those things that I'm warning it's going  
9 to come up at some point.

10 **MR. LANE:** I'll be glad to tell you the status of  
11 discussions.

12 **THE COURT:** And so -- but not now, maybe late in the  
13 day.

14 **MR. LANE:** Yeah, sure. I'll wait 'til then.

15 **THE COURT:** Okay

16 **MR. SHIDLOFSKY:** I'll give this back to the Court  
17 very shortly.

18 **THE COURT:** No problem. Thank you.

19 **MR. ZIMMERMANN:** Did you want to do the announcement  
20 on the record before we start the evidence?

21 **THE COURT:** No.

22 **(End sidebar conference at 2:33 p.m.)**

23 Okay. Dr. or Mr. Conte?

24 Are you going to want a computer on exhibits?

25 **MR. LANE:** So that I could see it?

1           **THE COURT:**     If you do, let me know, would you,  
2 because I have to manage it from up here.

3           **MR. LANE:**    Well, I have -- I can see anything here,  
4 but what I'm going to do is I'm going to hand the Court and  
5 opposing counsel -- and do it the old fashioned way -- a binder  
6 with three documents in it, which I'm going to use with the  
7 next two witnesses. And I'll direct you to the page. We'll  
8 put it on the screen, too.

9           **THE COURT:**   Are you in front or in back, because  
10 right now when I asked you, I had the table 2 on. So, I need  
11 to set it. Are you planning to use --

12           **MR. LANE:**    Give this to the judge.

13           **THE COURT:**   Thank you. Are you planning to use  
14 computers?

15           **MR. LANE:**    Well, we'll probably call it up on the  
16 screen, but I'm giving you a hard copy.

17           **THE COURT:**   I appreciate that. That's no problem.  
18 It's just that if you're going to call it up on the screen, I  
19 need to have it set correctly. I think I've got it. It's the  
20 back computer -- back box there.

21           **MR. LANE:**    Sure.

22           **MR. BENNETT:**   Your Honor, is there another copy of  
23 the documents? Do we not have another copy?

24           **MR. LANE:**    Sorry.

25           **THE COURT:**    You should have one for each --

1           **MR. LANE:** Party.

2           **THE COURT:** Party, exactly. Okay.

3           Would you raise your right hand, please?

4           **ROBERT CONTE, DEFENDANTS' WITNESS, SWORN**

5           All right. Would you state and spell your whole name  
6 for the record?

7           **THE WITNESS:** My name is Robert Conte. It's  
8 R-O-B-E-R-T.

9           **THE COURT:** You know what? Say that again.  
10 Robert --

11           **THE WITNESS:** My name is Robert Conte.  
12 C-O-N-T-E; first name Robert, R-O-B-E-R-T.

13           **THE COURT:** Thank you. You may proceed.

14                           **DIRECT EXAMINATION**

15 **BY MR. LANE:**

16 Q     Dr. Conte, can you tell me a little bit about your  
17 background, please?

18 A     I'm a physician and I was in practice here for a number of  
19 years. And over the last 20 years I've had a company called  
20 Corporate Health Care Management, which gives medical director  
21 services to corporations.

22 Q     And what was your specialty medically?

23 A     It was internal medicine, pulmonary disease.

24 Q     And what does your company do as of now?

25 A     What we do is actually employers hire me to do everything

1 from determining the policies and procedures on how they hire  
2 people; get them back to work; how they comply with OSHA law;  
3 wellness programs; recommendation on benefits coverage and this  
4 type of thing.

5 Q Could you please tell the Court -- tell Judge Atlas -- how  
6 you came to learn of a company called Stanford Financial?

7 A I originally had an advisor over at Prudential and  
8 Prudential was bought, I believe, by Wachovia. This is  
9 probably back in the early 2000s and my advisor went over to  
10 Stanford. And so, I followed the advisor from Prudential.

11 Q And when the advisor went over to Stanford, did you meet  
12 with the advisor?

13 A I did.

14 Q And did the advisor discuss with you Stanford Investments?

15 A He did.

16 Q And what did the advisor -- did the advisor make a  
17 recommendation?

18 A We made a number of recommendations, one of which was the  
19 CDs in Stanford.

20 Q And what did he tell you about the CDs?

21 A Well, my understanding that the CDs were invested in  
22 liquid assets and that the portfolio was mainly revolved around  
23 currency plays and that it was totally -- there was a totally  
24 ability to liquidate it in 48 hours. So, they didn't feel  
25 there was a lot of risk to it.

1 Q Did he discuss with you the rates that the CDs were  
2 paying?

3 A He did.

4 Q And what did he discuss with you about that?

5 A The rates were above market and that was the reason that I  
6 looked at them. And I looked because he said it was a liquid  
7 portfolio and that there were mainly currency plays around the  
8 wealth that allowed them to get that type of return.

9 Q When did you first invest in a Stanford CD?

10 A I may be mistaken, but I think it was around 2003. It may  
11 have been 2003 -- I think it was maybe 2003; between 2003 and  
12 2005.

13 Q And I'm not going to ask you the amount that you invested,  
14 but how did you -- you entered into the contract with Stanford  
15 and purchased the CDs?

16 A I did. Un-huh.

17 Q Did you receive what was called a disclosure statement?

18 A I believe so.

19 Q I'm going to ask you to look at what's been marked as  
20 Exhibit 39 in your binder in front of you, the document binder.

21 And your Honor, I believe there's no objection to 39.  
22 I would offer 39 into evidence.

23 **THE COURT:** Okay. No objections? It's received.

24 **(Defendants' Exhibit Number 39 was received in evidence)**

25 //



1 **BY MR. LANE:**

2 Q Is that the disclosure statement you received, Doctor?

3 A Well, I believe it is. I mean, obviously it's been a long  
4 time, but this looks like the one that I received.

5 Q At the time you made your investment, did you review this  
6 disclosure statement?

7 A I did.

8 Q Did you look at it carefully?

9 A As carefully as I could, sure. Uh-huh.

10 Q I want to ask you -- I want to direct your attention to a  
11 few pages in this document. On page one of the disclosure  
12 statement and it's entitled "securities investment statement"  
13 and it's at 804. And it states in the second paragraph:

14 "By signing the subscription agreement, you are  
15 acknowledging the receipt as well as careful review  
16 and understanding of this disclosure statement, the  
17 subscription agreement, the investor questionnaire,  
18 any additional account documents that may be required  
19 and their respective terms and conditions."

20 Did you, in fact, carefully review the disclosure  
21 statement?

22 A Well, I read through it. I reviewed it, like I said, as  
23 close as I could review it. I don't recall back then, but yes,  
24 I did review it.

25 Q And it states in the next paragraph:

1 "In making an investment decision, investors must  
2 rely on their own examination of the issue and the  
3 terms of the offering, including the merits and risks  
4 involved."

5 Let me ask you, did the Stanford representative also  
6 give you an annual statement of the company?

7 A He did.

8 Q Let me ask you about a few more questions here about the  
9 disclosure statement. Let me ask you to turn to page --

10 **THE COURT:** What was your last question?

11 **MR. LANE:** Did the representative -- the Stanford rep  
12 -- give you an annual report?

13 **THE COURT:** Okay. Thank you.

14 **MR. ZIMMERMANN:** Excuse me. That's not what I heard.  
15 I head did he give him a financial statement and I think that's  
16 what prompted the question.

17 **MR. LANE:** Financial statement did I say? My  
18 apology. If I misspoke --

19 **THE WITNESS:** I think it was an annual statement,  
20 wasn't it? That was what I understood is an annual statement.

21 **BY MR. LANE:**

22 Q Let me direct your attention to page 10 of the disclosure  
23 statement that's also 813 or 1925813. And you see this entry,  
24 or this page that begins, "Stanford International Bank  
25 Limited"?

1 A Yes.

2 Q Do you see where it says:

3 "Our primary business is to provide banking services  
4 and to issue certificates of deposit. The funds  
5 deposited with us are primarily invested in foreign  
6 and U.S. investment grade bonds and securities and  
7 Euro dollar and foreign currency deposits. The  
8 following data issues are an historical portfolio  
9 investments by specific categories of investment and  
10 the approximate percentage of funds invested for  
11 2003, 2004, 2005 and 2006."

12 Do you see where I'm reading?

13 A Yes. Uh-huh.

14 Q Do you see it has a number of columns for '06 -- year  
15 ending '06, '05, '04 and '03? Do you see those?

16 A Yes.

17 Q Did you discuss this particular aspect of the Stanford  
18 International Bank underlying investments with your Stanford  
19 rep?

20 A I did.

21 Q And what do you recall him telling you about that?

22 A Well, again, we said that they had a number of mechanisms  
23 they used to generate a significant amount of return and,  
24 again, that was certainly something that drew my attention  
25 along with the liquidity issue in case the market did turn or

1 something happened, they said they could liquidate it very  
2 quickly.

3 Q On the next page of that document, the top of it says:

4 "The following data shows our historical ten-year  
5 operating profits. The same data is illustrated in  
6 the graph below."

7 Do you recall reviewing the reported operating  
8 profits?

9 A Yes. I was interested in that.

10 Q And why were you interested?

11 A Well, because it had such a significant profit.

12 Q On page 12, the next page, second paragraph, this reads:

13 "While we do not generally provide unsecured credit  
14 facilities, we do provide loans to customers" --

15 **MR. ZIMMERMANN:** Excuse me, counsel.

16 Your Honor, that's not a question. I'm going to  
17 object to the form of these questions. He's reading from a  
18 document that he can ask --

19 **THE COURT:** Okay. Rephrase.

20 **BY MR. LANE:**

21 Q Well, may I ask you to read the second paragraph?

22 A "While we do not generally provide unsecured credit  
23 facilities, we do provide loans to customers, often  
24 secured by the customers' deposits at Stanford  
25 International Bank; usually in an amount greater than

1 the amount of the loan.

2 "We also issue letters of credit on behalf of our  
3 customers to support debt obligations to finance the  
4 shipment of goods. Customers' deposits typically  
5 secure letters of credit with Stanford International  
6 Bank in an amount equal to or greater than the  
7 letters of credit issued."

8 Q Do you remember at that point discussing any possibilities  
9 of loans by Stanford International Bank?

10 A Well, I asked them if there was any significant loans out  
11 there, because I did not understand that that was a lot of the,  
12 you know, bank's revenue coming from loans.

13 Q Do you see the bottom -- the bottom line -- or the last  
14 paragraph on that page? It has a reference to the total assets  
15 of Stanford International Bank, Limited?

16 A Yes.

17 Q And was this amount of total assets meaningful to you in  
18 connection with your purchase of the Stanford CDs?

19 A Yes, it was. It was substantial and it looked like they  
20 had a lot of deposits.

21 Q I want you to turn to page 14, which is a listing of the  
22 Board of Directors. You see at the top there, "Sir Allen  
23 Stanford, Chairman, Director"?

24 A Yes.

25 Q Did you have any discussion with the rep -- the Stanford

1 rep -- about Allen Stanford himself or about his philosophy or  
2 approach?

3 A No, just I knew that -- in fact, my only discussion about  
4 him was that if I thought he had made initially his money in  
5 insurance and real estate, and that was about all the  
6 discussion that took place.

7 Q Let me ask you to turn to page 16 of the disclosure you  
8 received when you invested. Do you see the paragraph that  
9 begins -- or is denoted "Investment philosophy and portfolio  
10 diversification"?

11 A I do.

12 Q Do you recall reading this in your disclosure?

13 A I recall reading most of this. I can't say anything other  
14 than that.

15 Q Now, you see where it states, "Our investment philosophy  
16 is to seek capital preservation of a consistent annual flow of  
17 revenues." Do you recall discussing that philosophy with the  
18 registered rep?

19 A Yes, I did, because the whole issue to me was that was the  
20 most protected part of my portfolio, I thought, because it had  
21 that type of revenue and that type of profit. So, I looked at  
22 it as a more conservative approach in the portfolio, actually.

23 Q And it states:

24 "We seek to obtain this global diversification of  
25 asset classes, economic sectors, issuers, currencies

1 in geographic areas."

2 Do you recall that -- discussing that subject with  
3 your representative?

4 A Yeah, I did, because that was what he felt was the reason  
5 for the returns.

6 Q Let me ask you to turn to Exhibit 33. Is this an annual  
7 report that you received and reviewed?

8 A It looks like one of the annual reports that I received,  
9 yes.

10 **MR. LANE:** Your Honor, we offer Exhibit 33.

11 **THE COURT:** Hearing no objections, it's received.

12 **(Defendants' Exhibit Number 33 was received in evidence)**

13 **BY MR. LANE:**

14 Q Now, I apologize that this is a Xerox copy. Did the copy  
15 you received, was it glossy and easy to read?

16 A Yes. It was.

17 Q Did you subsequently, after your initial investment with  
18 Stanford, make a second investment?

19 A I did.

20 Q How much longer after your initial investment did you  
21 invest?

22 A Probably about a year.

23 Q Was that your last investment?

24 A I don't think so. I think I've made like two or three in  
25 a row.

1 Q Would you receive an annual report every year?

2 A I would.

3 Q Did you review it when you received it?

4 A I did.

5 Q And why did you review it? What was the reason?

6 A Well, I was looking to make sure there were no change in  
7 the philosophy that had been explained to me.

8 Q Let's take a look at this report. I'd ask you to direct  
9 your attention to page -- it's page 9 of this report. It's 205  
10 is the next page. Do you see the financial highlights page?

11 A Yes.

12 Q You see it shows a year -- over a year -- growth in the  
13 total assets?

14 A Yes.

15 Q From 2.2 billion to 3.086 billion to four point -- and I  
16 apologize; this is not the best copy -- 4.059? Okay. Did the  
17 growth in the total assets as reflected in the financial  
18 highlights, was that meaningful to you as an investor in  
19 Stanford Financial?

20 A Yes, it was.

21 Q Did that in any way lead to you make those further  
22 investments in Stanford Financial?

23 A Yes, it was one of the things in the report that, you  
24 know, I felt it was appropriate to do so.

25 Q I want you to turn to page 19. It's 215 of the report.



1 See that entry that says, "Our risk management strategy"?

2 A Yes.

3 Q "SID employees an investment strategy with the goal  
4 of minimizing systematic and unsystematic risk while  
5 maintaining more than adequate liquidity, portfolio  
6 efficiency, operational flexibility, and absolute  
7 yields as opposed to index benchmark yields. Our  
8 return on investment expectations are realistic and  
9 based on as much knowledge of information as we can  
10 obtain on a first hand basis. In many instances,  
11 this simply means rolling up our sleeves to do the  
12 hard work necessary in order to make sound investment  
13 decisions."

14 Was this statement consistent with what your rep told  
15 you when you visited with him about the Stanford investment?

16 A That was.

17 Q Let me ask you to turn to page 26 of the report. This is  
18 actually very difficult to read because of the way it's imaged.  
19 It's chairman's letter; do you see that?

20 A Yes.

21 Q And let me ask you to turn the page. At the bottom, do  
22 you see who signed the chairman's letter?

23 A Yes.

24 Q Did you read it at the time?

25 A I did. Uh-huh.

1 Q When you see under "financial performance," are you able -  
2 - I don't know on this copy if you can read it, because of the  
3 way that it's copied.

4 THE COURT: Can you zoom in?

5 MR. LANE: Let me see if we can zoom in.

6 THE COURT: Which paragraph?

7 MR. LANE: The paragraph beginning "financial  
8 performance 2005."

9 THE COURT: Oh, I see one that says "The bank" --

10 MR. LANE: Yes.

11 THE COURT: And then one, "The total," something; and  
12 then, "Interest"; and then, "Our cash balance."

13 MR. LANE: Let me see if -- if I can -- maybe I can  
14 read --

15 THE COURT: I think she just hasn't blown up the  
16 right section.

17 MR. LANE: It is on mine. Let me see. Maybe I can -  
18 - what I'll do is --

19 THE COURT: Oh, I see it. Okay. Top. There you go.

20 BY MR. LANE:

21 Q Okay. If I may, I'll just -- let me -- is your monitor  
22 on?

23 THE COURT: Is his on?

24 THE WITNESS: No.

25 THE COURT: Press the button -- the screen on the far

1 right.

2           **THE WITNESS:** It's not turning on I don't think.  
3 Looks like it's trying to. Maybe I've got to hold it down.

4           **THE COURT:** You know what? Somebody dig under there  
5 and wiggle the wires, because I think it's just not plugged in  
6 right. You know how they always tell you, "You checked? It's  
7 plugged in?"

8           **THE WITNESS:** Looks like it's in, but I can't tell.

9           **MR. LANE:** Maybe I'll -- with the Court's permission,  
10 I'll read this if you can try and follow it and tell me if I've  
11 got it correctly?

12           **THE COURT:** Sorry. We'll get a new one.

13 **BY MR. LANE:**

14 Q I believe in the first paragraph under financial  
15 performance in the chairman's letter, it says:

16           "The bank achieved strong growth in assets and  
17 deposits in 2005. Assets totaled \$41 billion, up  
18 31.5 percent over 2004."

19           **(Attorneys confer)**

20           Four point one billion? I'm sorry. "Assets totaled"  
21 -- now I really am at the limits of my sight.

22           "Assets totaled \$4.1 billion, up 31.5 percent over  
23 2004. This represents an increase of nearly one  
24 billion dollars over the previous year. Deposits  
25 increased 33.1 percent to \$3.8 billion in 2005. The

1 bank's operating profit was \$35.9 million, slightly  
2 down from the 2004 record profit of \$36.2 million."

3 As best you can tell, did I read that correctly?

4 A As far as I could tell, yes.

5 Q And was that meaningful information to you as an investor?

6 A Yeah, it showed a growth in a profitable bank.

7 Q It goes on to say:

8 "Total revenues for the year were \$431.7 million, an  
9 increase of 30.1 percent over the previous year.

10 Investment income for the year was \$339.2 million, or  
11 78.6 percent of total revenue; and \$61.9 million, or  
12 22.3 percent greater than 2004.

13 "Interest income of \$86.3 million represented  
14 approximately 20 percent of total revenue, an  
15 increase from \$56.8 million in 2004."

16 Do you recall reading that portion of the letter?

17 A Yes, I recall reading all of the statements that  
18 referenced growth and profit.

19 Q It goes on to state:

20 "Interest paid to depositors for 2005 was \$220.8  
21 million, 36.6 percent greater than the \$161.7 million  
22 paid in 2004. Referral fees increased by 37.8  
23 percent to \$87.8 million and management fees  
24 increased to \$74.5 million, or 25.4 percent over the  
25 prior year."

1           **THE COURT:** Can you tell me what page you're on?

2           **MR. LANE:** It's page 27 of the 2005 annual report --  
3 the annual report for 2005, obviously released in 2006. And  
4 it's page 27 and it's under financial performance in the letter  
5 from the chairman.

6           And then, the last paragraph states:

7           "Our cash balance has increased to \$257.5 million, or  
8 29.6 percent over last year, and represented 6.8  
9 percent of client deposits. Financial assets at fair  
10 value increased \$906.7 million, to \$3.8 billion, a  
11 31.9 percent increase from 2004.

12           "As of 31 December 2005, shareholders' equity  
13 increased to \$282.5 million, up 14.6 percent from  
14 \$246.5 million on 31 December 2004."

15           What did this enormous amount of financial  
16 information mean to you when you read it; when you received  
17 this from Stanford?

18 A       Well, it showed growth and profitability in the bank, so I  
19 thought it was worth the investment.

20 Q       In the two pages after this letter signed by the chairman,  
21 there's a balance sheet at page 29. Do you see it states those  
22 figures again for the total liabilities and shareholder equity  
23 of \$4.059 million. Do you see that?

24 A       Which page are you on, 28?

25 Q       Two pages after the letter. It's page 29.

1 A At 29, okay. Yes.

2 Q Was this part of the materials that you reviewed in the  
3 annual statement?

4 A The balance sheet was, yes.

5 Q I want to ask you to turn to page 35 of this same annual  
6 report. It's 231.

7 Maybe if you could pull up loans and advances for  
8 clients at the bottom.

9 You see there's a paragraph that says "loans and  
10 advances to clients"?

11 A Yes.

12 Q And the second -- well, it states:

13 "Stanford International Bank does not expose its  
14 clients to the risks associated with commercial  
15 loans. The bank's only form of lending is done on a  
16 cash secured basis, solely to existing clients.  
17 Loans and advances to clients are permitted up to 80  
18 percent of deposits maintained by the client at the  
19 bank. The deposits serve as guarantee to the loan  
20 and, therefore, no additional provision is needed to  
21 support a potential loan loss."

22 There was similar language in the disclosure  
23 statement. Is that correct?

24 **THE COURT:** I'm sorry to be so thick, but where are  
25 you reading now?

1           **MR. LANE:** This is page 35.

2           **THE COURT:** Oh, 35. I misheard you. Sorry.

3           **MR. LANE:** This is the bottom. It is paragraph 2.9  
4 entitled "loans and advances to clients."

5           **THE COURT:** Got it. That's fine. Thank you.

6           **THE WITNESS:** I'm sorry. Would you repeat the  
7 question?

8 **BY MR. LANE:**

9 Q       This was consistent with what you'd been told in the  
10 disclosure statement when you initially invested?

11 A       Yes. When I initially invested, that was one of the  
12 reasons.

13 Q       Let me ask you to go to page 37 and you see page 37 --  
14 it's 233 -- and it's under "financial risk management."  
15 There's a section "strategy using financial instruments." Do  
16 you see that?

17 A       I do.

18 Q       Do you see the first paragraph under that states:

19               "As a banking company, the strategy of the bank is to  
20               efficiency manage assets and liabilities. In this  
21               process, assets primary consist of securities and, to  
22               a lesser degree, clients' credits and are matched in  
23               premium and timing. The bank's assets are invested  
24               in a well-balanced global portfolio of marketable  
25               financial instruments; namely, U.S. and international

1 securities and fiduciary placements."

2 Was that consistent, also, with what you'd been told  
3 when you invested the first time?

4 A It was.

5 Q And was this a statement that led you to continue to  
6 invest?

7 A It's one of the statements, yes.

8 Q It states:

9 "The bank's investment portfolio maintains a stable  
10 and well-balanced structure due to high proportion of  
11 fixed income investments and a diversified investment  
12 advisory network, resulting in an optimum  
13 diversification process. There is a policy of  
14 maintaining sufficient liquidity, thus protecting the  
15 longer termed investments with significant returns."

16 That reference to the policy of maintaining  
17 liquidity, was that also consistent with what you'd been told?

18 A It was.

19 Q You see below, the paragraph 3.4 "market risks"?

20 A I see it.

21 Q It states:

22 "Capital preservation and steady annual flow of  
23 revenues is a specific objective of the portfolio.  
24 This objective is met by the investment methodology  
25 that pursues minimization of risk, both



1 systematically and unsystematically, liquidity,  
2 marketability, portfolio efficiency, highest return,  
3 minimum risk, operational flexibility and absolute --  
4 as opposed to index linked -- yields on investment  
5 risk.

6 "Risk is monitored and managed on a day to day basis  
7 and a major component of this management is to remain  
8 widely diversified on an international scale. This  
9 objective is met through diversification and asset  
10 classes; debt, equity, cash, hard assets; economic  
11 sectors, health, financials, energy, et cetera;  
12 insurers, parent, governments, multi-nationals,  
13 commercial banks, et cetera; currencies," and then in  
14 parens, "U.S. dollars, Swiss franc, Japanese yen,  
15 euros and other currencies; and geographical areas,"  
16 and then in parens, "United States, Switzerland,  
17 England, France, Austria, Australia, Asia Pacific  
18 rim, et cetera.

19 "Furthermore, the bank's investment policy  
20 specifically limits at seven percent to eight percent  
21 on the downside for equity holdings and monitors  
22 historical statistical information for diversified  
23 investments, such as funds for exposure to risk."

24 Did you read that when you received the annual

25 report?

1 A Yes.

2 Q Did that lead you to make further investments in Stanford  
3 CDs?

4 A Yes, in addition to the other ones, yes.

5 Q Were any representations made to you in the initial sale  
6 with respect to how quickly the portfolio -- the bank's  
7 portfolio -- could be liquidated?

8 A I was told that it could be liquidated in 48 hours.

9 MR. ZIMMERMANN: Excuse me. Your Honor, I have two  
10 objections, if I may. Number one, relevancy as to Gil Lopez.

11 THE COURT: Okay.

12 MR. LANE: I'd love to --

13 THE COURT: You know there are three plaintiffs here.  
14 So --

15 MR. ZIMMERMANN: And can I have a running objection  
16 so I don't have to keep doing it?

17 THE COURT: Yes.

18 MR. ZIMMERMANN: But I do want to point out to the  
19 Court that the last set of questions --

20 THE COURT: Uh-huh.

21 MR. ZIMMERMANN: -- where the lawyer's been  
22 testifying? I shouldn't say questions. My second objection  
23 was that the lawyer is testifying.

24 THE COURT: Form. Okay. Form of question.

25 MR. ZIMMERMANN: Form of question and the relevancy

1 to Gil Lopez, talking about representations made by financial  
2 advisors.

3 **MR. LANE:** Your Honor, I would be delighted to  
4 respond.

5 **THE COURT:** Okay. You don't have to.

6 I'm allowing this because it's the first witness and  
7 I want this material in the annual statements or the brochures  
8 or whatever to be explained to me; not beating a dead horse  
9 over time, but I'm interested. And so, the form of the  
10 question, it's overruled. I'll allowing this reading to go on.

11 Second, with respect to Gil Lopez, this evidence is  
12 admissible as to everyone; whether it's relevant to him or is  
13 material, time will tell.

14 Hi, do you have another screen? Okay. We're going  
15 to just take a brief break. If you don't mind stepping down,  
16 Doctor.

17 **THE WITNESS:** No problem.

18 **THE COURT:** We're going to try to replace the  
19 monitor. You can go around. I think it would be easier.

20 You all can chat among yourselves if you want.

21 **(A recess was taken from 3:05 p.m. to 3:08 p.m. to repair**  
22 **computer monitor)**

23 **THE COURT:** All right. We're back on the record.  
24 We've solved the monitor problem. There was a second on/off  
25 switch, for the record. Try to redo it to redeem my own

1 (indiscernible).

2 **THE WITNESS:** It was in the back somewhere.

3 **THE COURT:** It's behind the screen.

4 **THE WITNESS:** It's got two on/off switches.

5 **MR. LANE:** It's a double secret power switch.

6 **THE COURT:** Okay.

7 **DIRECT EXAMINATION (RESUMED)**

8 **BY MR. LANE:**

9 Q Dr. Conte, I believe I had asked you about the liquidity.  
10 I think when last we broke I believe I was asking you about the  
11 liquidity. Is that correct?

12 **THE COURT:** Yes.

13 **BY MR. LANE:**

14 Q Of the account? Okay. Did your Stanford financial  
15 representative initially discuss with you the level of the risk  
16 associated with this investment?

17 A Yes, he did.

18 Q And what did he tell you about that?

19 A Well, he said it was extremely low risk because of the  
20 type of portfolio and because of the ability to, you know, to  
21 turn it over in 48 hours if need be.

22 Q Did the 2005 annual report that we've been going over  
23 continue to create that impression for you?

24 A It did.

25 Q Let me ask you to go to page 55 -- and it's 251. See this

1 "report of management"?

2 A I have it.

3 Q And who is that signed by?

4 A R. Allen Stanford and James Davis.

5 Q And it states in the first paragraph:

6 "The management of Stanford International Bank is  
7 responsible for the preparation, integrity and  
8 objectivity of the financial statements of the bank.  
9 The financial statements and notes have been prepared  
10 by the bank in accordance with the international  
11 financial reporting standards and, in the judgment of  
12 management, present fairly and consistently the  
13 bank's financial position and the results of  
14 operations.

15 "The financial statements and other financial  
16 information in this annual report include amounts  
17 that are based on management's best estimates and  
18 judgment and give due consideration to materiality."

19 Dr. Conte, did you take some comfort that management  
20 affirmed the integrity and objectivity of the financial  
21 statements?

22 A I did. And I think it was independent audits, too, so  
23 yes, I did.

24 Q And it goes on to state:

25 "The bank maintains a system of internal accounting

1 controls to provide reasonable assurance that assets  
2 are safeguarded and that transactions are executed in  
3 accordance with management's authorization and  
4 recorded properly to permit the preparation of  
5 financial statements in accordance with international  
6 financial reporting standards."

7 Now, do you see that paragraph?

8 A Yes.

9 Q Did that representation that the bank maintained a system  
10 of internal accounting controls give you comfort?

11 A It did.

12 Q Now, this 2005 report issued in 2006, you invested  
13 subsequent to receiving this annual report, didn't you?

14 A I did.

15 Q Had you in this annual report been told that there were  
16 substantial loans to the chairman Allen Stanford in the amount  
17 of hundreds of millions -- or perhaps over a billion dollars,  
18 would that have affected your willingness to continue to invest  
19 in Stanford?

20 A Substantially, yes.

21 Q What would you have done?

22 A I wouldn't have invested in it. I'd probably have taken  
23 the CDs out.

24 Q Had this annual report disclosed that instead of being  
25 invested in highly liquid securities and currencies and so

1 forth -- the things that I described to you -- rather the  
2 bank's investments were in related companies and ventures of  
3 various kinds that were ill liquid? Would that have affected  
4 your willingness to remain a Stanford investor?

5 A Yeah, I would not have remained an investor.

6 Q Let me ask you to turn to Exhibit 36. This is the 2006  
7 annual report.

8 Your Honor, I'd offer Exhibit 36.

9 **THE COURT:** I'm receiving it.

10 **(Defendants' Exhibit Number 36 was received in evidence)**

11 **BY MR. LANE:**

12 Q Now, I'm not going to be so tedious as to read every one  
13 of these representations. I wanted the Court to have the  
14 benefit of --

15 **THE COURT:** Thank you. If you want to just cite us  
16 to the pages, just so I can flip through or something; you  
17 don't have to read them.

18 **MR. LANE:** Your Honor, I'll ask about some similar  
19 language and there's new language in this particular one.

20 **BY MR. LANE:**

21 Q Do you recall receiving this annual report?

22 A I recall receiving all the annual reports, this one  
23 included, yes.

24 Q Let me ask you to turn your attention to page -- I'm going  
25 to refer you to the Bates number at the very bottom, beginning

1 with the "B," because I can't see the page (indiscernible) the  
2 one ending in 016; so, it's 16 in Bates numbers.

3 **THE COURT:** There are numerous numbers on there.

4 **THE WITNESS:** Yeah.

5 **MR. LANE:** Okay.

6 **THE COURT:** Are you referring to the dark ones?

7 **MR. LANE:** There's a longer one that's --

8 **THE WITNESS:** The one at the very bottom?

9 **MR. LANE:** The very bottom.

10 **THE COURT:** Oh, that's the one you're referring to at  
11 the very bottom?

12 **MR. LANE:** Yes, 16.

13 **THE WITNESS:** Okay. I have it.

14 **BY MR. LANE:**

15 Q Do you see that's the chairman's letter?

16 A Yes.

17 Q And who is that signed by on the next page?

18 A R. Allen Stanford.

19 Q On the first page, on page 16 -- that is, of the  
20 chairman's letter -- I'm not going to read to you the language  
21 in there, but when you received this report, did you see that  
22 the assets -- the total assets of the bank -- had grown to more  
23 than \$5 billion -- \$5.3 billion -- up from the \$4 billion  
24 approximately the previous year?

25 A I can see the page. Where are you on the page?



1 Q Well, it's in that language that says, "The bank continues  
2 to have solid growth in assets and deposits."

3 A Oh, yes, I see where you're talking about and that's  
4 correct, yeah.

5 Q Then it says, "Total assets at year end were \$5.3 billion,  
6 up 31.5 percent in one year."

7 A Yes. I see it and I did read that, yes.

8 Q And do you recall at the time seeing that information?

9 A Yeah, I recall at the time the chairman's letter showing  
10 continued growth and profitability, yes.

11 Q And did that provide you comfort as an investor in  
12 Stanford?

13 A It did.

14 Q I'm just going to ask you to go to page 20 on that bottom  
15 number. Do you see the balance sheet?

16 A I do.

17 Q And this reflects the total assets for '05 and '06. Do  
18 you see that?

19 A I do.

20 Q And again, that reflects the number, the \$5.3 billion from  
21 \$4.059 billion.

22 A That's correct.

23 Q And did you actually look over this balance sheet; look  
24 over these financials when you received the annual report?

25 A Yes. I always did.

1 Q Let me ask you to go to page 23. Do you see "notes to  
2 financial statement"?

3 A Yes.

4 Q Can you see under "accounting policies note 2," it says,  
5 "2.1 basis of presentation"?

6 A I see it.

7 Q And you see underneath there at paragraph beginning, "The  
8 bank is adopting the following IFRS"? Do you see that?

9 A Yes.

10 Q And this is different from the previous annual reports.  
11 I'm going to read it.

12 "The bank is adopting the following IFRS, which are  
13 relevant to its operations. All other standards do  
14 not currently apply to the bank's operations."

15 And then, it has a list of IAS numbered principles.

16 Do you see those?

17 A I do.

18 Q Do you see IAS 24 "related party disclosures"?

19 A I do.

20 Q Now, did you read the notes -- these notes to the  
21 financials -- when you received the annual report?

22 A Yes, I usually read the notes because they tend to be more  
23 -- just as important or more so than some of the other things.

24 Q Let me ask you to go to page 25 and I can see the numbers  
25 on 27 Bates stamp. And it says "loans and advances to

1 clients." Is this once again the provisions --?

2 A I'm sorry. What page are you on?

3 Q It's 25 of the report.

4 A Okay.

5 Q Bates stamp number 27. At the bottom it has "loans and  
6 advances to clients."

7 A It's 27 at the bottom?

8 Q Yeah.

9 A Okay. I can't see anything at the top. Okay. Yes, I do  
10 see.

11 Q And that's a similar assurance about the lack of loans?

12 A That's correct.

13 Q That the debtor's described? And do you recall seeing  
14 that again?

15 A Yes.

16 Q Let me ask you to go to page 27 and that's at the bottom  
17 it's Bates number 29, but it was 27, and it's "strategy in  
18 using financial instruments."

19 A Where are you now? What's the bottom number?

20 Q It's note 3. The page is 27. The bottom Bates number is  
21 29.

22 A I don't have page numbers on mine. Just the bottom  
23 number.

24 Q Okay.

25 A Okay, 29, okay. I have it.

1 Q And this is a little bit different. It states -- in the  
2 second paragraph of 3.1:

3 "Strategy in using financial instruments. The bank's  
4 investment portfolio maintains a stable and well-  
5 balanced structure due to a high proportion of fixed  
6 income investments and a diversified investment  
7 advisory network, resulting in an optimum  
8 diversification process.

9 "There is a policy of maintaining sufficient  
10 liquidity, thus protecting longer term investments  
11 with significant returns."

12 Was that meaningful -- that representation meaningful  
13 to you?

14 A It was.

15 Q And let me ask you to go to page 48 at the bottom, Bates  
16 number. Do you see this "report of management"?

17 A I do.

18 Q And it's the same in substance as the "report of  
19 management" in the prior year's annual report. Is that  
20 correct?

21 A Pretty much so, yes.

22 Q Now, I want to ask you. You recall I read you a note  
23 about the IFRS and IAS 24? Do you recall that --

24 A Yes.

25 Q -- list of information? The statement that the bank was

1 following that IAS? At this point in time, when you received  
2 this annual report in 2007, had you been made aware that there  
3 were substantial loans to Allen Stanford?

4 A I was not aware of that, no.

5 Q Were you ever made aware -- well, were you made aware at  
6 the time you received this or did you know that the investments  
7 of Stanford Financial or Stanford International Bank, Limited  
8 were not as represented in the annual report?

9 A I was not made aware -- repeat the question again?

10 Q Well, let me ask you this. When did you -- was there a  
11 point when you became concerned about your investment in  
12 Stanford International Bank, Limited?

13 A Yeah. I happened to be in the building when the SEC  
14 walked in to shut them down. So, I became very concerned at  
15 that time.

16 Q What was the reason you were in the building at that time?

17 A I was in the building because I was talking to them and,  
18 actually, it was about this and saying, "Should we not take  
19 some money out of the CDs and put it into something else?" And  
20 I was coming down the elevator when they wouldn't let me exit  
21 the building and I finally convinced them I was not an  
22 employee. I was an investor. I was in the parking lot. I was  
23 very concerned, obviously.

24 Q And what did you do as a result of being at Stanford at  
25 the time they shut down the bank?

1 A Well, I tried to call back. They advised, obviously, they  
2 had all the employees that they had sequestered somewhere and,  
3 I guess, telling them what they were doing. Unfortunately, I  
4 was standing at the elevator when they read off their --  
5 whatever the charges were (indiscernible) and I guess that's  
6 why they thought I was an employee. They wouldn't let me out  
7 for a while.

8 But no, I mean, once they did that and, obviously, I  
9 tried to call the advisor back, but obviously at that time  
10 there was no way to get in touch with them.

11 Q Were you ever able to withdraw the investment that you  
12 made at Stanford?

13 A No. I had one CD that I did cash in a year or two earlier  
14 and bought an annuity or something with, but no, the rest of  
15 them I left there, yeah.

16 **MR. LANE:** At this time, your Honor, I pass the  
17 witness. Thank you.

18 **THE WITNESS:** Okay.

19 **CROSS EXAMINATION**

20 **BY MR. KUNIANSKY:**

21 Q Good afternoon, Dr. Conte.

22 A Good afternoon.

23 Q My name is Richard Kuniansky. We met briefly at your  
24 deposition. Do you recall that?

25 A Yes, sir, we did.

1 Q And Mark Kuhrt wasn't present.

2 Mark, would you stand up, please?

3 That's Mark Kuhrt who I represent. Have you ever  
4 seen that gentleman before in your life?

5 A I have not.

6 Q Okay. He has made no representations to you of any type,  
7 correct?

8 A He did not.

9 Q And all these different things that were read off that you  
10 relied upon, you do not know whether he wrote any of those or  
11 even if he did have something to do with some of him, where he  
12 got his information from, correct?

13 A I'm not aware of that, yeah.

14 Q You don't know whether or not he was misled in the same  
15 way that you were misled, do you?

16 A I have no idea.

17 Q Now, one of the reasons that you bought the CD -- I guess  
18 the reason a lot of people did -- is a combination of a high  
19 rate of return and a purported low degree of risk, correct?

20 A That's correct.

21 Q In investing, those are normally mutually exclusive; I  
22 mean, the higher the rate of return the greater the risk.  
23 Isn't that the way it normally works?

24 A That's the way it's supposed to work, I guess, yeah.

25 Q Okay. And you are an extremely well-educated man. Would

1 you agree with that?

2 A In medicine, that's correct, yes.

3 Q Not necessarily finance, huh?

4 A No.

5 Q And you've -- and I'm not going to ask you what you made,  
6 but you've been a successful both doctor and businessman, as  
7 what many people would call a high income earner. Is that  
8 correct?

9 A Yes, but as using my profession.

10 Q Excuse me?

11 A Using my profession, that's correct. You said a  
12 businessman.

13 Q Well, you're really more than just a physician, though.  
14 Haven't you established some kind of business type of practice  
15 that --

16 A Yes.

17 Q -- is related to the medical industry?

18 A Yes. The business of medicine is what I do. That's  
19 correct. Based on my credentials, yes.

20 Q And we can all look back in hindsight and think that  
21 something was pretty foolish, correct?

22 A That's correct.

23 Q And if you look back on this, you would think that that  
24 was maybe pretty foolish of me to invest in this, correct?

25 A Based on the representations at the time, I didn't think



1 it was.

2 Q Now, one of the things that you relied upon was the fact  
3 that there was an independent audit, correct?

4 A That's correct.

5 Q That gave you some degree of comfort that all those things  
6 that you were looking at had supposedly been audited by an  
7 independent auditor, correct?

8 A Correct.

9 Q And you understand an auditor's not somebody that just  
10 takes the numbers and goes with them, that they're supposed to  
11 look behind the numbers and make sure that the numbers are, in  
12 fact, true, correct?

13 A That's my understanding.

14 Q Now, when you went to Stanford -- by the way, I take it  
15 the Stanford you went to was the brown brick building right  
16 across -- Westheimer across from the Galleria. Is that right?

17 A That's correct.

18 Q And that's where your financial advisor was, correct?

19 A That's correct.

20 Q And you went there, I guess, with the idea of you were  
21 going to think about taking some money out of your CDs at the  
22 time, correct?

23 A Well, I visited him a number of times. That's one  
24 occasion, that's correct, yes.

25 Q You were thinking about redeeming some of your CDs at that

1 time?

2 A That's correct, yeah.

3 Q And did he talk you out of it or what?

4 A No, he felt it was, you know, we could diversify some  
5 things and I said I'd like to take some out of there and  
6 diversify a little bit further since the amount that was  
7 getting in the CDs was higher than I wanted in CDs.

8 Q So, he was actually going to do that for you but didn't  
9 have the opportunity because everything broke at that time?

10 A That's correct, yes.

11 Q Okay. And you were actually there and they wouldn't let  
12 you out of the building for a while. Is that right?

13 A That's correct.

14 Q You didn't like being wrongfully accused, did you?

15 A (Witness laughing)

16 (Pause)

17 **CROSS EXAMINATION**

18 **BY MR. ZIMMERMANN:**

19 Q Doctor, we met at the deposition; do you recall that?

20 A Yes, sir. We did.

21 Q I don't want to spend a lot of time with you, but you  
22 don't know Gil Lopez, do you?

23 A I do not.

24 Q Do you see him in the courtroom?

25 A I do not. I know there's a gentleman sitting next to you,

1 but no, I don't know if that's Mr. Lopez or not.

2 Q Your medical training (indiscernible).

3 A It's kind of hard. He's a big man. Kind of hard not to  
4 see him.

5 Q But you don't know him?

6 A No, I do not.

7 Q He never made any representations to you that dealt with  
8 the investments?

9 A He did not.

10 Q You never saw anything that you relied on that was signed  
11 by him?

12 A I did not.

13 Q You never received any mail or anything from him, either,  
14 did you?

15 A Not that I'm aware of.

16 Q Let me cover just a couple of things and you have a little  
17 notebook there with three exhibits. Let's look at 33 first.  
18 Actually, at page 32 of that document at the top. Do you see  
19 "notes to the financial statements"?

20 A Yes, sir.

21 Q And right under note 1, the last line, it says, "These  
22 financial statements have been approved for issue by the board  
23 of directors on 28 April 2006."

24 A That's correct.

25 Q And that says the board of directors, correct?

1 A Yes, sir.

2 Q All right. Would you then, in that same document, turn to  
3 page 56? Do you see that, sir?

4 A Yes, sir.

5 Q Do you see in the left hand column, it says "board of  
6 directors"?

7 A I do.

8 Q Do you see Gil Lopez' name there?

9 A I do not.

10 Q If you'll just flip from page 56 to the previous page, 55.

11 A I have it, yes, sir.

12 Q And you see where it says "report of management"?

13 A I see it.

14 Q In that first line, it says, "Management of Stanford  
15 International Bank is responsible for the preparation and  
16 integrity and objectivity of the financial statements of the  
17 bank." Does yours say that?

18 A Yes, sir.

19 Q If you'll flip, then, to page 56 and look at the middle  
20 column. It says "bank's manager."

21 A Yes, sir.

22 Q Do you see that?

23 A I do.

24 Q Do you see Gil Lopez' name in that column?

25 A I do not.

1 Q Do you see an accounting manager's name listed there?

2 A I do.

3 Q And what's that name?

4 A It looks like it's Banupi (phonetic) Persaud,  
5 P-E-R-S-A-U-D.

6 Q All right. And do you see -- my copy's a little hard to  
7 read, but do you see that first name up there that says  
8 president?

9 A Yes. I believe it's the president. It's the first name  
10 under the bank's manager?

11 Q Okay.

12 A Okay.

13 Q Mr. Rodriguez?

14 A Yes.

15 Q And would you go back to the previous page, 55, and look  
16 at the left hand column, the last paragraph where it says:

17 "The bank's independent accountants were engaged to  
18 perform an examination of the financial statements  
19 and this examination provides an objective outside  
20 review of management's responsibility to report  
21 operating results and financial conditions."

22 That was important to you, right?

23 A Yes, sir.

24 Q And I think we just established that you relied -- I think  
25 you told Mr. Kuniansky that you relied on outside auditors --

1 A Independent auditors, yes, sir.

2 Q Independent auditors?

3 A Yes, sir.

4 Q And that was important to you, right?

5 A Yes, sir.

6 Q Okay. If you'll then flip to Exhibit 36 and go to page  
7 45. This time the page numbers are at the bottom.

8 **THE COURT:** You using the same Bates numbers?

9 **MR. ZIMMERMANN:** Actually, I wasn't using Bates  
10 numbers, because these were clear.

11 **THE WITNESS:** You were looking at the bottom -- the  
12 last number at the bottom of the page?

13 **BY MR. ZIMMERMANN:**

14 Q Well, I can. If you want to use that, look at 046.

15 A Oh, okay. Yes, sir. I have it.

16 Q Okay. And I don't want to repeat all that, but would look  
17 under "report of management"? It makes it clear that the  
18 management of Stanford International Bank is responsible for  
19 the financial statements of the bank, correct?

20 A Yes, sir.

21 Q We just went through that.

22 A That is correct.

23 Q And if you flip to the next page, which is 47 on the Bates  
24 number, and there's a statement there about the auditor's  
25 report and it's signed by who? Can you tell?

1 A It's signed -- well, I can't tell the actual -- I can't  
2 tell. Reading that at the signature part, it says CASU  
3 Company, Limited is the accountant.

4 Q And that's not a Houston outfit, is it?

5 A It is not. It says St. Johns Antigua.

6 Q Did that bring you some comfort that it was an outside  
7 auditor reviewing these matters?

8 A It was an independent auditor; that's correct.

9 Q Let's look at -- if you flip the page, we have once again  
10 under "report of management" who's responsible for the  
11 financial statements and its accuracy, same as we did in the  
12 previous --

13 A Correct.

14 Q Signed by the same people?

15 A That's correct.

16 Q Did Gil Lopez sign that?

17 A No.

18 **THE COURT:** I think it's just a repeat of the same  
19 page.

20 **THE WITNESS:** No, sir.

21 **MR. ZIMMERMANN:** I'm sorry, Judge?

22 **THE COURT:** It's the same page -- duplicated twice.

23 **MR. ZIMMERMANN:** I'm looking at page 48, Judge.

24 **THE COURT:** I know. I'm just telling you it's the  
25 same as 46. Okay. Doesn't matter. Go ahead.

1           **MR. ZIMMERMANN:** You know, it is --

2           **THE COURT:** It's in here twice.

3           **MR. ZIMMERMANN:** -- but I didn't check -- but it's  
4 got a different Bates number. You're right. It is twice.

5 **BY MR. ZIMMERMANN.**

6 Q       And if you look at page 49, same questions about Gil Lopez  
7 not on the board of directors, not in the bank's management,  
8 correct?

9 A       That's correct.

10 Q       And those auditors that you said looked like they signed  
11 it? They're listed as the auditors there, too, correct? In  
12 the third column?

13 A       Yes, they are.

14 Q       All right. Let's go to Exhibit 39, the last one in your  
15 document, and flip to Bates -- page 817. Let me know when you  
16 got there.

17 A       Yes, sir. I have it.

18 Q       All right. You see the board of directors?

19 A       I do.

20 Q       And if you would look on that page and tell me if you see  
21 Gil Lopez' name?

22 A       I do not.

23 Q       Go to the next page, 818. Is that the management?

24 A       I see it.

25 Q       Do you see Gil Lopez' name under management?



1 A I do not.

2 Q And then, if you'll go to the last page I'd like for you  
3 to look at is 820.

4 A I have it.

5 Q All right. Now, if I understood your testimony correctly  
6 -- just to sum it up -- you were in contact only with the  
7 financial advisor?

8 A That's correct.

9 Q Okay. And did you know what company he worked for? Did  
10 you know that was --

11 A My understanding was that he was with Stanford Group.

12 Q Did you -- they had a lot of alphabet soup kind of stuff.  
13 It was hard to keep track of -- did you ever know it was SGC or  
14 not?

15 A No, I'm sorry.

16 Q Let me look at my notes real quickly. I may not have any  
17 more for you.

18 Can I have just a moment with counsel, your Honor?

19 We'll pass the witness, Judge. Thank you very much.

20 **THE WITNESS:** Thank you.

21 **MR. BENNETT:** Your Honor, may I just stand here?

22 **THE COURT:** Sure. No problem.

23 //

24 //

25 //

1 **CROSS EXAMINATION**

2 **BY MR. BENNETT:**

3 Q Doctor, Bob Bennett. We met before, didn't we, at your  
4 deposition?

5 A Yes, sir. We did.

6 Q And who was your financial advisor?

7 A Gentlemen named John Fry and Lou Perry -- Louis Perry.

8 Q And you've filed a lawsuit against them, haven't you?

9 A Yes, sir, I have.

10 Q Okay. Now, the first time you invested, how much did you  
11 invest?

12 A Probably about \$100,000.

13 Q Okay. And as I understand it, you were talking -- that  
14 you withdrew that, the first investment, one time?

15 A No, I did not. I made subsequent investments and then  
16 withdrew some later on.

17 Q Okay. How much did you overall invest with Stanford?

18 **MR. LANE:** Your Honor, objection, relevance.

19 **THE WITNESS:** Is that something, Judge, I need to --?

20 **MR. BENNETT:** Well, I think it's important, your  
21 Honor, because I think some of it was withdrawn and some of it  
22 was moved and we need to know what service was rendered.

23 **THE COURT:** Wait, wait. What's the question again?

24 **MR. BENNETT:** How much did he invest with Stanford.

25 **THE COURT:** Total?

1           **MR. BENNETT:** Total.

2           **THE COURT:** Well, why don't you ask him -- okay.  
3 I'll allow that. You have to answer.

4           **THE WITNESS:** Yeah, the investments I made with  
5 Stanford were not all in the CDs. And I did subsequent close  
6 to a million dollars, of which only a portion of that was in  
7 CDs.

8 **BY MR. BENNETT:**

9 Q     Okay. Now, can you just tell me the classifications of  
10 what else was invested? Was it in coins? Was it in cash?

11 A     No. It was in equities; General Motors, companies like  
12 that, conservative investments.

13 Q     So, part of the investment was with the brokerage firm and  
14 part of it was with the bank -- the CDs. Is that correct?

15 A     That's correct.

16 Q     Okay. And prior to the SEC coming in and meeting you in  
17 the elevator, you never lost a penny with any Stanford entity;  
18 isn't that correct?

19 A     That's correct.

20 Q     You got good service with Stanford, didn't you?

21 A     Yes.

22 Q     Now, do you know that for 26 years when Stanford was  
23 going, before the government took them over, not one customer  
24 lost a penny at Stanford. Did you know that?

25 A     No, I'm not aware of that.

1 Q Well, when you were talking to your investment advisor,  
2 did he tell you this long history of successful investing?  
3 Wasn't that important to you?

4 A Yes, it was, but, I mean, we didn't go into detail on it.  
5 But yes, he did mention that.

6 Q Well, you went into all the detail about all of these  
7 notes and things, he didn't tell you about the long history of  
8 very successful investing they had before the government came  
9 in?

10 A Mr. Bennett, I don't remember having a discussion with him  
11 about Mr. Stanford or Stanford's groups or history. I really  
12 don't.

13 Q Okay. Well, I understand that. I'll withdraw it. Of  
14 course, you never met Mr. Stanford, my client sitting next to  
15 me, did you?

16 A I did not.

17 Q And he personally never made any representations to you,  
18 did he?

19 A No, he did not.

20 Q He never personally -- not talking about the financial  
21 statements -- never personally sent you any letters,  
22 correspondence, anything like that?

23 A No.

24 Q And there's a dining room there at Stanford Financial  
25 Group, or the Stanford Financial Building on Westheimer.

1 Remember that?

2 A Yes.

3 Q And you ate there, didn't you?

4 A I did.

5 Q And you were treated very nicely when you were there,  
6 weren't you?

7 A Yes, I was.

8 Q And then, subsequently, you lost how much with the CD  
9 program?

10 A Out of my investment, probably around -- somewhere around  
11 -- \$300,000.

12 Q Okay.

13 A Somewhere around that.

14 Q Did you know that 98 percent of U.S. investors have all  
15 gotten their money back?

16 **THE COURT:** No, no, no.

17 **BY MR. BENNETT:**

18 Q You are here at the behest of the insurance company,  
19 aren't you?

20 A Yes.

21 Q And have they paid you anything to testify today?

22 A They have not.

23 Q How much time have you spent with the attorneys for the  
24 insurance company?

25 A None.

1 Q So, you -- first time that you've come in today and talked  
2 to Neel Lane was today?

3 A That's correct.

4 Q Okay. You didn't talk to him before your deposition?

5 A No, I did not.

6 Q Didn't talk to him after your deposition?

7 A No, I did not.

8 Q He didn't go over it with you any of the questions he was  
9 going to ask you?

10 A He did not.

11 Q Now, you moved some of your investments around within the  
12 Stanford portfolio; isn't that correct?

13 A Yes, I moved them to different stocks that I had an  
14 interest in.

15 Q Did anyone at Stanford tell you not to do that or you  
16 couldn't move it around or did they give you complete freedom  
17 to invest any way you wanted to?

18 A No, they offered me advice and gave me -- when I had told  
19 them I'd like to look at certain things, they gave me  
20 information on them.

21 Q Now, being an intelligent and experienced investor, you  
22 kept up with the stock market in 2008, didn't you?

23 A Yeah, I kept up with it to a certain extent, but you're  
24 saying as an investor. I don't do investments for a living. I  
25 do it to try to protect some assets going down the line.

1 Q How did your stocks do in the fall of 2008?

2 MR. LANE: Objection, relevance.

3 THE COURT: Sustained.

4 BY MR. BENNETT:

5 Q Now, you're not here to say any of these figures that are  
6 in any of the publications we've gone through are in any way  
7 inaccurate, are you?

8 A No, I'm not.

9 Q Now, turn with me -- I'm now at page -- under Exhibit 33 -  
10 -

11 Your Honor, could I get that on the screen, please?

12 THE COURT: Sure. Oh, you want me -- you're going to  
13 do it?

14 MS. UNIDENTIFIED: Yes, ma'am. Thank you.

15 THE COURT: Okay. No problem. Are you in the front?

16 MS. UNIDENTIFIED: Yes, ma'am.

17 THE COURT: Okay. I've got three front --

18 BY MR. BENNETT:

19 Q It's on page 55 of Exhibit 33. It's been received in  
20 evidence. Doctor, do you have that in front of you?

21 A I have Exhibit 33. What page are you on?

22 Q On the bottom -- on the top, it says page 55. On the  
23 bottom, it's number 0251.

24 A I have it.

25 Q You see in the last paragraph, which starts with "the

1 board of directors discharge"; do you see that?

2 A I do.

3 Q Do you see where it makes reference to the audit  
4 committee?

5 A It does.

6 Q Knowing that there was an audit committee, did that give  
7 you some reassurance and comfort and feeling good that there  
8 was an audit committee?

9 A That's correct.

10 Q Okay. And did you also know that was headed by Mr. Davis,  
11 who we've talked about already? Did you know that?

12 A I didn't know who headed it. It says independent  
13 accountants in the management -- it says Mr. Davis is the CFO,  
14 so I would assume he on it, whether he headed it, I don't know.

15 Q Do you have reason to doubt that he was head of it?

16 A No.

17 **MR. BENNETT:** Just a moment, your Honor?

18 **THE COURT:** Sure.

19 **(Attorney conferring with client)**

20 **BY MR. BENNETT:**

21 Q Before the SEC came in, prior to that time, you were in no  
22 way going to withdraw all your money or change your investment  
23 standard; isn't that correct?

24 A No. As I previously stated, my intention was is that the  
25 CDs and the amount that was in them, when you look at



1 calculated interest it all, it was much more of the portfolio  
2 than I wanted the CDs to be in, so that was what I was going to  
3 change.

4 Q But you were going to keep it with Stanford?

5 A Yes. Yes.

6 Q Okay.

7 No further questions, your Honor. Thank you.

8 **MR. LANE:** I have no redirect, your Honor.

9 **THE COURT:** All right. You're excused. Thank you.  
10 You may step down.

11 I do have one question, actually. You said you  
12 intended to diversify? The other investments that you had  
13 through the Stanford advisor, were those investments in  
14 publicly traded companies and other --

15 **THE WITNESS:** Yes. It was all publicly traded -- the  
16 companies -- such as I said General Motors, Coca Cola.

17 **THE COURT:** Right.

18 **THE WITNESS:** I put substantial amounts of the money  
19 into things like Coca Cola. Most everything I had was dividend  
20 producing and, like I said, that one CD I did cash in and I put  
21 it into an annuity.

22 **THE COURT:** Right. Okay. So, when you wanted to  
23 diversify at the end, you did not intend to invest in more  
24 Stanford owned assets?

25 **THE WITNESS:** Oh, no. No.

1           **THE COURT:** Oh, okay. I just needed to clarify --

2           **THE WITNESS:** No, that was -- you know, it was in  
3 publicly traded (indiscernible).

4           **THE COURT:** That was your goal?

5           **THE WITNESS:** Yes, ma'am.

6           **THE COURT:** Gotcha. Thank you. You're excused.

7           **THE WITNESS:** Thank you.

8           **(Witness excused at 3:45 p.m.)**

9           **THE COURT:** Next witness?

10          **MR. LANE:** Your Honor, the underwriters call Kelly  
11 DeHay.

12          **THE COURT:** How late did I tell you we were going  
13 tonight?

14          **MR. LANE:** You said --

15          **THE COURT:** Six?

16          **MR. LANE:** Six, I believe, your Honor.

17          **THE COURT:** I'm willing to go later if you want,  
18 because I know we took a long time --

19                You can step up here, please. Would you raise your  
20 right hand, please?

21           **WALLACE LEE DEHAY, JR., DEFENDANTS' WITNESS, SWORN**

22                Please be seated. Pull yourself up close to the mic.

23          **THE WITNESS:** Okay. This close enough?

24          **THE COURT:** So that you can be heard. And then,  
25 state and spell your whole name for the record -- your given

1 name, please.

2           **THE WITNESS:** Wallace, W-A-L-L-A-C-E, Lee, L-E-E,  
3 DeHay, D-E-H-A-Y, Junior, J-R.

4           **THE COURT:** Thank you.

5                           **DIRECT EXAMINATION**

6 **BY MR. LANE:**

7 Q     Mr. DeHay, do you go by Kelly?

8 A     Yes.

9 Q     And what business are you in?

10 A    I'm a realtor.

11 Q    And where do you reside?

12 A    I reside at 1501 Marshall in Houston, Texas.

13 Q    Could you tell the judge how you first came to hear of a  
14 company called Stanford Financial?

15 A    My financial advisor had been with Wachovia for many years  
16 and he went to Stanford Financial.

17 Q    After going to Stanford Financial, did he contact you?

18 A    Yes.

19 Q    Did he ask to meet with you?

20 A    Yes.

21 Q    And could you tell the judge about that meeting?

22 A    Well, he asked us to come with him. We had a nice working  
23 relationship and we had immense trust in him. And so, we did  
24 go with him.

25 Q    Who was your financial advisor, by the way?

1 A Doug Shaw.

2 Q Did Mr. Shaw tell you anything about Stanford  
3 International Bank, Limited when you met with him?

4 A Probably not the first time. That's something that came  
5 up later on.

6 Q The first he met with you, what did you discuss with him?

7 A I really can't remember everything that we would have  
8 discussed in the very first meeting. We weren't -- we didn't  
9 change our portfolio all the time, so therefore we usually just  
10 had meetings, quarterly meetings or, you know, semi-annual  
11 meetings that -- and we would discuss maybe what the present  
12 portfolio was doing.

13 Q Did there ever come a time when Mr. Shaw suggested or  
14 recommended, rather, that you invest in Stanford International  
15 Bank, Limited CDs?

16 A Yes.

17 Q Could you tell the judge about what you were told on that  
18 occasion?

19 A I was told that it wasn't like a typical bank. It was  
20 much more highly capitalized than an American bank; that they  
21 didn't pay taxes the way an American bank paid taxes. So, I  
22 was given material that showed, I think, for instance, on the  
23 third page of the brochure I was given, there the words were  
24 security, stability, well diversified.

25 The bank didn't work like a typical American bank,

1 where they made money really making loans. They would loan  
2 money to a customer, but they would never loan more than what  
3 the customer had in the bank. So, to me, I didn't see how they  
4 could really lose some money to that particular customer.

5 But their instruments were supposed to be from multi-  
6 national companies. They were very well diversified. They  
7 weren't limited to any particular geographic region, but just  
8 it sounded like large, secure businesses.

9 Q Was this CD -- did it charge a fixed rate?

10 A It would have paid me a fixed rate.

11 Q Was it -- did it seem a competitive rate with other CDs?

12 A It was higher than an American bank was paying.

13 Q Did you question Mr. Shaw about that?

14 A Well, I think when he went over the material about the  
15 reason why they could pay a higher rate and then it was  
16 basically, I thought, outlined in the material, because I  
17 thought, "If you're not paying taxes the way an American  
18 business would pay, et cetera," then they probably should be  
19 able to do this.

20 Q Did you share with Mr. Shaw your investment goal?

21 A Yes. No, Doug knew that we were very conservative  
22 investors, that preservation of capital was everything.

23 Q And did you convey that to him?

24 A Yes.

25 Q Did he provide the information about Stanford

1 International Bank, Limited that led you to believe that it was  
2 a conservative investment?

3 A Yes.

4 Q And what, if you recall, anything else than you already  
5 described to the judge -- could you let the judge --?

6 A I think one of the -- maybe one statement that he made to  
7 us. He had \$2 million of his own money there.

8 Q Let me show you. There's a book in front of you, Exhibit  
9 36. This is the Stanford International Bank 2006 annual report  
10 released in 2007. Do you recall receiving this annual report?

11 A I don't know that I did. I have a report, but I don't  
12 know that it was this one.

13 Q Do you need to look at it to familiarize yourself with it?

14 A I know that we asked for an additional report after I  
15 became an investor, but I don't know the date of that report.

16 **MR. BENNETT:** Objection, non responsive. Motion to  
17 strike, your Honor.

18 **THE COURT:** Overruled.

19 **BY MR. LANE:**

20 Q When did you become an investor? Which calendar year?

21 A 2007.

22 Q And was there -- with respect to the annual report  
23 materials, did you go over any materials with the financial  
24 advisor?

25 A We went over -- as far as materials that was printed in

1 the book that this company was very profitable. And it had  
2 continued to become more profitable, it appeared, each year.

3 Q Was that important to you?

4 A Yes.

5 Q And why is that?

6 A Well, I didn't want to make an investment in an  
7 unprofitable company.

8 Q And what did you invest in at Stanford International Bank  
9 CDs? What amount did you invest?

10 A I personally invested \$120,000.

11 Q And what was the purpose of that investment? What were  
12 you --?

13 A It's part of my retirement account.

14 Q And how long did you intend to remain invested?

15 A I signed up for five years.

16 Q Did there come a time when you -- well, let me ask you.  
17 How did you -- did you have further communications with your  
18 broker after that?

19 A Yes.

20 Q Did you continue to have quarterly meetings?

21 A I think initially, but then they all seemed to stop.

22 Q About what time frame was that?

23 A I think sometime in -- either end of 2007 or 2008.

24 Q Was there a point at which you became worried about  
25 Stanford International Bank?

1 A We were. We were very concerned. There was many changes  
2 in the stock market and we e-mailed Doug and asked him to  
3 please reassure us that everything was fine with the bank and  
4 he did.

5 Q He did. And what were those reassurances about Stanford  
6 International Bank?

7 A He just reassured us there was no problems with the bank.

8 Q Did you ever -- despite his assurances -- become more  
9 concerned about Stanford?

10 A I think one thing that concerned me was he wasn't  
11 communicating with me the way he once did and I just felt  
12 almost like he was hiding, but I couldn't -- you know -- I just  
13 couldn't get my arms around it.

14 Q Did there ever come a time when you called Doug Shaw about  
15 your investments and didn't receive a response?

16 A I think that's possible, yeah, I think it is. I think  
17 they said he was out of town or something.

18 Q Did there come a time when you learned that Stanford had  
19 been seized by regulators?

20 A February 13th.

21 Q Tell me -- February 13th, 2009?

22 A Yes.

23 Q Can you tell me about what you learned on February 13th  
24 and what occurred that day?

25 A I was handed the Houston Chronicle when I woke up that



1 morning and I saw the article in the paper.

2 Q And as a result of seeing the article on Stanford, what  
3 did you do?

4 A I immediately called Doug.

5 Q Did you receive a response?

6 A I got -- I knew he always went to work early and so I  
7 called -- got his assistant. And she said she would -- I told  
8 her I merely wanted to take my money out of the bank. And she  
9 said she would start preparing the documentation for me to do  
10 that. And then, I just went to the bank -- then I just went to  
11 Stanford's office on Westheimer.

12 Q Across from the Galleria?

13 A Yes.

14 Q And what did you find there?

15 A I went upstairs. I was starting to sign some papers and  
16 then he came in.

17 Q He being Mr. Shaw?

18 A Doug Shaw.

19 Q And what did Mr. Shaw tell you?

20 A He told me I couldn't have the money. He told me I could  
21 have -- he thought I could have the interest.

22 Q And did you take steps to try and get the interest --?

23 A I signed the paperwork to get anything that I could.

24 Q Did you -- after that, did you have any further dealings  
25 with Doug Shaw?

1 A No.

2 Q Did you receive back the interest or the principal or  
3 anything?

4 A No.

5 Q Okay.

6 A For some reason, there was \$71.35 that was never invested  
7 or not invested. I got a check for that.

8 Q That was in a cash account of some kind?

9 A I guess so.

10 Q After that February 3rd encounter with Mr. Shaw, did you -  
11 -

12 A February 13th.

13 Q February 13th, I'm sorry. Did you ever go back to  
14 Stanford?

15 A Yes.

16 Q Okay. Tell me about -- tell the judge about that.

17 A The day that it was announced on television that they had  
18 posted a website, I believe it was for the receiver, I went to  
19 see it, see what it was, hoping I could write it down and gain  
20 some information about what was going on.

21 Q And what was the scene at Stanford Financial when you got  
22 there?

23 **MR. ZIMMERMANN:** Excuse me. What's the relevancy to  
24 any contested issue in this case?

25 **THE COURT:** Sustained.

1 **BY MR. LANE:**

2 Q Had it been disclosed to you at the time that you met with  
3 Mr. Shaw with respect to a potential investment in Stanford  
4 that Mr. Stanford himself -- Allen Stanford -- had substantial  
5 unsecured loans from Stanford International Bank in the amount  
6 of more than a billion dollars, would that have concerned you?

7 A Yes.

8 Q If you'd been told that a large portion of the portfolio  
9 was in a liquid real estate venture, would that have concerned  
10 you?

11 A Yes, because that wouldn't have been what the documents I  
12 was given to read -- what it said it was supposed to be in.

13 Q To date, have you received any portion of the amount that  
14 was invested actually in the CDs?

15 A No.

16 **MR. LANE:** Your Honor, I pass the witness.

17 **CROSS EXAMINATION**

18 **BY MR. KUNIANSKY:**

19 Q Good afternoon.

20 A Good afternoon.

21 Q My name is Richard Kuniansky and I represent Mark Kuhrt.

22 Mark, would you stand up, please? Be seated.

23 Have you ever seen that gentleman before?

24 A No, sir.

25 Q He's not made any representations to you of any type

1    whatsoever, correct?

2    A     No, sir.

3    Q     Your financial advisor, Doug Shaw, how did you come to be  
4    involved with him?

5    A     One of my customers I had done about approximately five  
6    real estate transactions with, he was a very conservative  
7    businessman. And he recommended Doug Shaw. He had done  
8    business with him at Wachovia.

9    Q     And at that time, Doug Shaw had moved over to Stanford?

10   A     This was before.

11   Q     Oh, before. So, you started with him at Wachovia.

12   A     Yes.

13   Q     And when he transferred over, you stayed with him?

14   A     That's correct.

15   Q     And to your knowledge, did Doug Shaw knowingly make any  
16   misrepresentations to you?

17               **THE COURT:** He's asking to your knowledge.

18               **THE WITNESS:** No, I guess not.

19   **BY MR. KUNIANSKY:**

20   Q     You probably had a pretty good relationship with him up  
21   until everything soured at the end. Is that right?

22   A     Yes.

23   Q     Happens to be a nice guy.

24   A     He's all right.

25               **MR. KUNIANSKY:** That's all the questions I have.

1 **CROSS EXAMINATION**

2 **BY MR. ZIMMERMANN:**

3 Q Mr. DeHay, you and I never met; I'm Jack Zimmermann. I  
4 represent a fellow named Gil Lopez. Do you know Gil Lopez?

5 A No, sir.

6 Q You don't know Gil Lopez?

7 A No.

8 Q You never met him?

9 A No, sir.

10 Q Ever talked to him on the phone?

11 A Not to my knowledge, no.

12 Q Did he ever make any presentation to sell you any  
13 financial instruments associated with Stanford company?

14 A No, sir.

15 Q Do you see him in the courtroom?

16 A I don't know him.

17 Q Okay. Thank you very much.

18 A You're welcome.

19 **THE COURT:** Anything?

20 **MR. KENNEDY:** Yes, your Honor, some brief questions.

21 **CROSS EXAMINATION**

22 **BY MR. KENNEDY:**

23 Q Mr. DeHay, my name is Kirk Kennedy. I'm counsel for Allen  
24 Stanford. I have a few questions for you. Isn't it true that  
25 the information that you relied upon came from Mr. Shaw

1 regarding Stanford Financial?

2 A I assume it came to Doug Shaw through the corporation.

3 Q But your only personal contact to Stanford Financial was  
4 with Mr. Shaw. Isn't that correct?

5 A Yes.

6 Q And you've never met Allen Stanford before, have you?

7 A No.

8 Q You see him sitting here, right?

9 A Yes.

10 Q Okay. And you testified about personal loans or you were  
11 asked by Mr. Lane about some personal loans of Mr. Stanford.  
12 You have no personal knowledge of any personal loans made by  
13 Stanford International Bank to Allen Stanford, do you?

14 A No.

15 Q In fact, you don't have any personal knowledge of any of  
16 the underlying financial transactions or financial data that  
17 went into the annual shareholder report, do you?

18 A No. All I would know is what was printed.

19 Q All you know, really, is what Mr. Shaw told you. Isn't  
20 that true?

21 A I'm sure Mr. Shaw furnished me and every other investor  
22 the information that his corporation had printed. I don't  
23 think he dreamed it up.

24 Q How long have you been an investor with Stanford Financial  
25 prior to February the 13th?

1 A I guess Doug went there maybe in 2006.

2 Q 2006. And the reason that you couldn't get your  
3 investment back on February the 13th, or your interest or your  
4 principal, is because the SEC had, in fact, seized the company  
5 and obtained appointment of a receiver. Isn't that true?

6 A Yes.

7 Q And so, when you state that the preservation of capital  
8 was everything to you, right?

9 A It meant a lot to me. I worked hard for my money.

10 Q And isn't it true, though, that the reason that this  
11 capital wasn't preserved was because the SEC had captured it  
12 and wouldn't release it to you?

13 MR. LANE: Objection, your Honor.

14 THE COURT: Sustained.

15 MR. KENNEDY: No further questions.

16 THE COURT: Anything further?

17 MR. LANE: I've nothing further, your Honor. Thank  
18 you for your patience.

19 THE COURT: You're excused. Thank you.

20 (Witness excused at 4:03 p.m.)

21 Should we take a little break?

22 MR. LANE: Be delighted to.

23 THE COURT: We've only been going an hour and a half,  
24 but -- okay. Here's the deal. I'm not leaving the bench. So,  
25 you have to be back here in ten minutes. Ten minutes.

1 (A recess was taken from 4:03 p.m. to 4:20 p.m.)

2 MR. BENNETT: Do you want to do this matter now?

3 THE COURT: Do you want to? I was going to ask you.

4 (Court confers with ERO)

5 MR. UNIDENTIFIED: We're not needed.

6 (Begin sidebar conference at 4:03 p.m.)

7 THE COURT: Is Mr. Stanford ready?

8 Remember (indiscernible)?

9 MR. UNIDENTIFIED: Yes, your Honor.

10 THE COURT: Even the funny part.

11 MR. UNIDENTIFIED: Yes, your Honor.

12 THE COURT: If you have to talk to somebody, you talk  
13 to me.

14 MR. UNIDENTIFIED: Yes, ma'am.

15 THE COURT: Okay.

16 MR. STANFORD: Yes, ma'am?

17 THE COURT: I wanted to just do what I told you I was  
18 going to do, which is put on the record the summary of our  
19 conversation. For the record, I agreed to meet with  
20 Mr. Stanford, Mr. Bennett, Mr. Kennedy and Mr. Wallis in the  
21 presence of a United States Marshal, Mr. Olivares, and my law  
22 clerk, Mr. Hallmark (phonetic), to discuss what --

23 COURT REPORTER Excuse me, Judge? Excuse me? I  
24 can't hear anything because people --

25 THE COURT: Could you keep it down, please?



1 I have to start over. Sorry. You okay?

2 MR. STANFORD: No. I have on these dadgum -- I have  
3 these little old skinny socks they don't give you and it's just  
4 like eating (indiscernible) flesh. They twist in a certain  
5 way.

6 THE COURT: Can you loosen them?

7 MR. STANFORD: That'd be great. That would be  
8 wonderful.

9 THE COURT: Okay. He'll try and loosen them a little  
10 bit.

11 MR. STANFORD: Thank you.

12 THE COURT: Anyway. I'll repeat, since it wasn't  
13 clear I could be heard. At counsel's request at the sidebar  
14 this morning, in response to my urging parties to negotiate --  
15 I was focused on the Kuhrt and Lopez people -- and one of  
16 Mr. Stanford's lawyers, Mr. Kennedy, asked if I would discuss  
17 that kind of thing on behalf of Mr. Stanford with the  
18 underwriters and I explained that I couldn't push the  
19 underwriters at that point in time for a variety of reasons,  
20 but one of them was the concern I had about Mr. Stanford's  
21 letter to Chief Judge Hinojosa complaining about Mr. Bennett.

22 And so, we agreed -- that is, the Stanford team --  
23 and Mr. Stanford and I agreed we would meet over the lunch hour  
24 and did so in the jury room off the record. I discussed with  
25 Mr. Stanford the practical issues posed by his letter;

1 specifically, that the letter was sent to Chief Judge Hinojosa  
2 and that Judge Hinojosa is a judge just like all of us on the  
3 district bench and while he has the dignity and the honor of  
4 being Chief Judge, it's largely an administrative role by  
5 virtue of his seniority and he has no power over the other  
6 judges in that any concerns Mr. Stanford might have with  
7 respect to counsel in this case needed to be taken up with me.

8           And so, we were attempting to do that. I explained  
9 to Mr. Stanford that the letter had been sent on by hand -- a  
10 copy of his letter had been sent to Judge Hittner and had been  
11 given to Mr. Bennett, but no one else.

12           The rest of the discussion was largely about my  
13 concerns and my warnings to Mr. Stanford that the continuity of  
14 counsel is important and that I was concerned that he not be  
15 too quick to terminate the relationship with Mr. Bennett, which  
16 he has the right to do -- but as he, Mr. Stanford, has the  
17 right to do -- because continuity of counsel -- we're in the  
18 middle or we have started the civil trial here on the coverage  
19 issue and that I had seen Mr. Bennett had filed many documents,  
20 including extensive proposed findings of fact and other  
21 materials, witnesses, et cetera, et cetera; and that it seemed  
22 to me that work was being done.

23           And while it might not be to Mr. Stanford's full  
24 liking and there might be other gripes which Mr. Stanford may  
25 want to pursue, this was not something that I could pursue in

1 my capacity as a federal judge here or in charge of this case;  
2 that those gripes would need to be taken up with other  
3 authorities, such as State Bar or the like and that Judge  
4 Hinojosa could initiate proceedings to wind up precluding a  
5 lawyer from appearing in federal court here in this district,  
6 but not sanction in any other way.

7           And so, the issue is posed what did Mr. Stanford want  
8 to do and I expressed concern that Mr. Stanford not represent  
9 himself, although he has the right to do so. And I did say  
10 that parties are usually too close to the situation and did  
11 some explanation about it's important to have the back and  
12 forth, this debate and discussions with lawyers, but that  
13 lawyers are trained and they're looking out for both this case  
14 and other cases that Mr. Stanford may face and does face; and  
15 that it was his choice about continuing with Mr. Bennett.

16           It was a private retention arrangement and I had no  
17 authority over it. I did remind or tell Mr. Stanford that I  
18 had refused and denied Mr. Bennett's request to be relieved  
19 because he thought that the relationship had -- it was a motion  
20 that he made recently, because he thought the relationship had  
21 deteriorated. I denied that motion because I felt he was in  
22 this case and that continuity of counsel was so important.

23           But I reminded Mr. Stanford that many times during  
24 this debate that -- or discussion, rather -- I reminded him  
25 that he had the right to pick his own lawyer or lawyers.

1 I did explain that I appreciate that Mr. Stanford's -  
2 - some of his papers had been sent in late, but that I had  
3 permitted that and had not stricken them, so that the delay --

4 **(Voices in the courtroom)**

5 Please watch out. I need it quiet. If you want to  
6 talk, you're welcome to do so in the hallway.

7 I made it known to Mr. Stanford that although things  
8 had been filed late, I had allowed them to be included in the  
9 record and was relying on them and considering them and the  
10 only things that I'd actually stricken were, I think, two  
11 documents that were filed -- that seemed duplicative and were  
12 incomplete and not -- but there may have been other things I've  
13 stricken, but nothing of substance.

14 So -- I'm trying to remember what else I said. But  
15 the real point is that I expressed numerous times to  
16 Mr. Stanford that he had the right to go with the lawyers he  
17 had. Mr. Bennett and Mr. Wallis and Mr. Kennedy were all here  
18 in this proceeding and allowed to question as is evident from  
19 the recent cross examinations after noon; but that at the time  
20 of lunch I said that he could proceed with these lawyers and  
21 that I cautioned him and warned Mr. Stanford not to in a fit of  
22 frustration or whatever go pro se if he -- unless he really  
23 wanted to.

24 But he has the right to do it and if I might recall,  
25 Mr. Stanford said something to the effect at the end of the

1 discussion that he "would take my advice" and I corrected him  
2 to say it's not my advice. "It's warnings. It's genuine,  
3 heartfelt warnings, but you have the power, Mr. Stanford."

4 I'll direct my comment now to you directly. You have  
5 the power to do what you choose. I felt like we had an  
6 informative discussion. You told me a little bit -- not a lot  
7 -- but a little bit about what was on your mind regarding the  
8 frustrations you have in the prison and the difficulties, many  
9 of the points, of course, I'm aware of. But you didn't tell me  
10 too much. I did more of the talking.

11 And that, for what it's worth, is intentional in that  
12 I don't want you to divulge attorney/client matters to me any  
13 more than absolutely necessary, because it's none of my  
14 business and it could possibly prejudice you and I wouldn't  
15 ever want that to happen.

16 I'm sure there are other things I may have said, but  
17 I think this really does cover it. There was a little  
18 discussion about withdrawing the letter, but I said if it's  
19 under seal and perhaps something that you and Mr. Stanford  
20 needed to decide after discussing matters with your lawyers,  
21 both Mr. Bennett and the others you have; who, by the way, are  
22 completely independent of one another as I understand it. Is  
23 that correct?

24 **MR. STANFORD:** It is correct, yes.

25 **THE COURT:** Okay. There was also the discussion of

1 the possibility of settlement negotiations of the civil  
2 coverage suit. We did not get into that in any detail, because  
3 twofold: One, we need to settle up on the representation side;  
4 and number two, I was waiting for what I deemed to be an  
5 opportune moment to raise the subject with the carriers. And I  
6 feel that waiting for some evidence to come in is a better  
7 time.

8 I have not been involved in any details of any  
9 settlements with any parties. Every conversation I've had with  
10 the exception of this one at lunch and this now is  
11 conversations I've had with opposing parties present.

12 So, the settlement comments that I may or may not  
13 make as this trial goes on are an exercise of my judgment that  
14 I do, from time to time, but not that often, when I perceive  
15 there's an opportune time. It's like anything else, timing is  
16 everything.

17 So, is there anything else that anyone wants to  
18 mention that I discussed before you give me your response?  
19 Yes, sir?

20 **MR. BENNETT:** Your Honor, I think it'd just be in the  
21 record that you discussed this with the underwriters before we  
22 had meeting and they approved of us having this.

23 **THE COURT:** Yes. That's a good point.

24 **MR. BENNETT:** I wanted to be sure that's clear.

25 **THE COURT:** I did ask, actually, all other counsel in

1 this case if there was any objection to me meeting with  
2 Mr. Stanford and his team and everyone else noted that there  
3 was no objection from their side.

4 Go ahead.

5 **MR. BENNETT:** Second, your Honor, my motion to  
6 withdraw was based on (indiscernible) --

7 **THE COURT:** Yeah.

8 **MR. BENNETT:** And that was not -- it didn't have  
9 anything to do with any type of conflict. At that time when --

10 **THE COURT:** Okay. I mis-remembered. Thank you.

11 **MR. BENNETT:** That's the only issue with that, not  
12 being paid.

13 **THE COURT:** Yes, that's true. And in fact, you  
14 reminded me he did discuss during the lunch session some  
15 frustration you have on that score and you did tell me what you  
16 understood payment to be to the other lawyers, which I did not  
17 know.

18 And Mr. Stanford did tell me that Mr. Bennett and  
19 Mr. DeGuerin, who was short-lived in this case were the only  
20 two lawyers that Mr. Stanford actually picked for himself.

21 **MR. STANFORD:** Yes, ma'am.

22 **MR. BENNETT:** And I was the only attorney that has  
23 facilitated discovery.

24 **THE COURT:** I'm sorry?

25 **MR. BENNETT:** I was the only one who facilitated

1 discovery for him, brought things to me.

2           **THE COURT:** Right. And there were many things  
3 Mr. Stanford said that were favorable, actually, during the  
4 meeting about Mr. Bennett that countered to some extent the  
5 allegations in the letter. But I wasn't planning to get into  
6 any of that here on this record. I'm letting that be handled  
7 separately.

8           **MR. BENNETT:** Yes, ma'am.

9           **THE COURT:** Okay. Have I fairly characterized our  
10 discussion?

11           **MR. BENNETT:** Yes, ma'am.

12           **THE COURT:** Is there anything else you can think of  
13 that I covered with you that may have impacted you or that you  
14 care about? What do you remember I said?

15           **MR. STANFORD:** I remember everything you said, Judge.

16           **THE COURT:** But anything I've missed here in my  
17 summary?

18           **MR. STANFORD:** No, ma'am.

19           **THE COURT:** Okay. Would you like to comment back to  
20 me about where we stand for these lawyers? Don't give me any  
21 detail. I'm just really interested in the punch line.

22           **MR. STANFORD:** Yes, your Honor. I'd like to continue  
23 with Mr. Bennett and with Olney and Kirk and --

24           **THE COURT:** That's Wallis and Kennedy.

25           **MR. STANFORD:** Kennedy, yes. Wallis and Kennedy. I



1 guess it'd be kind of silly to fire the only lawyer that never  
2 got paid.

3 (Laughter)

4 THE COURT: (Indiscernible). I will say, also, that  
5 you did say that Mr. Bennett had been a loyal soldier to you in  
6 many ways.

7 MR. STANFORD: We've had our disagreements, but I  
8 think more important than that is just the conditions of trying  
9 to work under. But anyway, I won't go into that.

10 THE COURT: But you did tell me some of that, that  
11 you were frustrated in the anxiety of the start of the trial  
12 and some of that you felt had possibly impacted you.

13 MR. STANFORD: I think it impacted all of us, your  
14 Honor.

15 THE COURT: Yes.

16 MR. STANFORD: All of us. And then, of course, Bob  
17 -- Mr. Bennett -- not having any money to pay anybody and his  
18 personal situation. Just a combination of things. And then,  
19 I'm in prison --

20 THE COURT: Yeah.

21 MR. STANFORD: It's just hard. It really is. But I  
22 would like to send you a letter, your Honor, and send it to the  
23 Chief Justice.

24 THE COURT: Judge -- Chief Judge.

25 MR. STANFORD: Chief Judge.

1           **THE COURT:** No, you definitely don't want to send it  
2 to Washington.

3           **MR. STANFORD:** Sorry.

4           **THE COURT:** It would get lost in about a million  
5 pieces of paper.

6           **MR. STANFORD:** To the Chief Judge also; send it by  
7 copy. Send it to you, copy him, and then that I explain the  
8 situation very briefly that I would like to withdraw my  
9 letter --

10          **THE COURT:** Okay.

11          **MR. STANFORD:** -- and go forward from where I am.

12          **THE COURT:** You can write anything you want. Do you  
13 have a copy of the original letter you sent? Do you want me to  
14 give you a copy so you can have it for reference?

15          **MR. STANFORD:** Yes. I do not have a copy.

16          **THE COURT:** I do not have -- well, this is what I  
17 have, including the cover sheet of the Chief Judge sending it  
18 to me. Let me be sure it's only one copy. Yeah, okay. You  
19 can have this. We can print another one. No problem.

20          **MR. STANFORD:** Thank you.

21          **THE COURT:** All right. Anything further?

22          **MR. STANFORD:** No, your Honor. Thank you, your  
23 Honor.

24          **THE COURT:** You're welcome.

25          **MR. BENNETT:** Do you know how long we're going to go

1 this afternoon?

2           **THE COURT:** We're going to go until at least 6:00.  
3 I'm hoping to go a little longer, because we've had longer  
4 breaks than I'd planned.

5           **MR. BENNETT:** Thank you, your Honor.

6           **THE COURT:** You're welcome.

7           **(End sidebar conference at 4:20 p.m.)**

8           **THE COURT:** Okay. Mr. Lane, are you ready with  
9 another witness?

10          **MR. LANE:** Yes, your Honor.

11          **THE COURT:** Okay. Is Mr. Shidlofsky here? Or may we  
12 proceed without him?

13          **MR. UNIDENTIFIED:** He's out in the hallway. I'll get  
14 him, Judge.

15          **THE COURT:** If somebody will -- thank you. I see you  
16 got a tie.

17          **MR. UNIDENTIFIED:** I did get a tie and it matches  
18 almost perfectly.

19          **MR. UNIDENTIFIED:** It matches the coat he had on  
20 yesterday.

21          **THE COURT:** Okay. Another notebook. Thank you very  
22 much.

23          **MR. UNIDENTIFIED:** Judge, I'm going to return these  
24 to you.

25          **THE COURT:** Oh. I'm going to be rich with notebooks.

1           **MR. UNIDENTIFIED:** It's the same one.

2           **THE COURT:** That's all right. I actually would try  
3 to get some of them back.

4           In the future, for what it's worth, at the end -- I'm  
5 going to do this, but we need the numbers on the spine. I'm  
6 just telling you it's handy.

7           **MS. UNIDENTIFIED:** Okay.

8           **(Pause)**

9           **THE COURT:** Do we have another witness? You want to  
10 check the witness?

11           **MR. LANE:** Yes, your Honor.

12           **THE COURT:** I mean, you can chat while we're getting  
13 it, but -- him or her.

14           **MR. LANE:** Underwriters call Mark Tidwell.

15           **MR. BENNETT:** Your Honor, before this witness is  
16 called, there may have been a violation of the rule and I'd  
17 like to go into that real briefly with Mr. Tidwell.

18           **THE COURT:** Okay. What violation?

19           **MR. BENNETT:** I think he's been talking to some of  
20 the other witnesses in violation of the rule.

21           **THE COURT:** Okay. Well, I'll let you cross on it.

22           **MR. BENNETT:** Okay. Thank you, your Honor.

23           **THE COURT:** Underwriters -- Mr. Tidwell? Are you  
24 Mr. Tidwell?

25           **THE WITNESS:** Yes, I am.

1           **THE COURT:** Step up here, please. Will you be sure  
2 to have your staff tell the witnesses not to talk to each  
3 other?

4           **MR. CHASNOFF:** Yes, your Honor.

5           **THE COURT:** Okay. Would you raise your right hand,  
6 please?

7           **DWAYNE MARK TIDWELL, DEFENDANTS' WITNESS, SWORN**

8           Please be seated. Would you please state and spell  
9 your whole name for the record and speak into the mic? If you  
10 want to move the chair up closer, it does move.

11           **THE WITNESS:** Dwayne Mark Tidwell.

12           **THE COURT:** Oh, you know -- sorry. Try it again.

13           **THE WITNESS:** Dwayne Mark Tidwell, D-W-A-Y-N-E, Mark,  
14 M-A-R-K, Tidwell, T-I-D-W-E-L-L.

15           **THE COURT:** Thank you. You may proceed.

16                           **DIRECT EXAMINATION**

17           **BY MR. LANE:**

18           Q     Mr. Tidwell, where do you reside?

19           A     Spring, Texas.

20           Q     And by who are you employed?

21           A     Zenith Wealth Management.

22           Q     What is the nature of your business?

23           A     Financial services.

24           Q     And do you have any licenses through FINRA?

25           A     Yes, I do. My licenses are held with Sunbelt Securities.

1 Q Which licenses do you have?

2 A 63, 7, 66, 31.

3 A Can you tell me a little bit about your background -- your  
4 educational and work background -- before you joined Stanford  
5 Financial?

6 A I have a BBA in finance from Texas A and M University. I  
7 went to work out of college in '91 for what is now Wells Fargo;  
8 worked there for a few years, from '91 to '95. Went to work  
9 for Merrill Lynch here in Houston from '95 to January 2004.  
10 From January 2004 I worked for Stanford Group Company in  
11 Houston and my employment terminated December of 2007.

12 Q Could you tell the judge what the nature of your various  
13 positions were in the securities industry prior to your joining  
14 Stanford?

15 A Basically as a financial advisor or financial consultant,  
16 as sometimes we're called. We're also financial planners. I  
17 have a certified financial planning designation.

18 We consult with investors and do financial plans for  
19 them; help them plan for college, retirement, you know, various  
20 things like that, which encompasses making investment  
21 recommendations; you know, monitoring their investment  
22 portfolio and making sure they can get to those stated  
23 objectives.

24 Q How did you come to join Stanford?

25 A Actually I was recruited by a gentleman that his name

1 escapes me, but a lot of times in this industry you get calls  
2 from recruiters, you know, over many years and I was approached  
3 to hear about an opportunity to go to a small private firm and  
4 so he introduced me to Stanford.

5 Q And at the time, you were at Merrill?

6 A That is correct.

7 Q And who did you meet with at Stanford before joining to  
8 learn about Stanford?

9 A That was several individuals; primarily, though, there a  
10 Jay Comeaux, who was a managing director for the Houston office  
11 and I think at the time I was recruited, he was still president  
12 of Stanford Group Company and then there was various other  
13 individuals, HR, different directors of different departments  
14 that would possibly be of use of me with assisting my clients.

15 Q Were you given any information about the company?

16 A I was given various brochures on their mutual fund  
17 program, Stanford International Bank, Limited; also, their  
18 fixed income product that they also solicited.

19 Q Did they give you information about the certificate of  
20 deposits?

21 A Yeah, that was issued through Stanford International Bank,  
22 Limited.

23 Q And what made you decide to go over to Stanford?

24 A Well, that was not an easy decision, having been at  
25 Merrill Lynch for about nine years. Part of it was that they

1 were private with perceived financial strength. They offered a  
2 unique array of products, but they were, you know, they were  
3 independent. They weren't a -- as they call in our industry --  
4 they weren't part of the wire house.

5 So, that was what the attraction was for me to come  
6 over. Merrill Lynch had just gone through a series of  
7 situations and instances, Enron being probably the most notable  
8 one, and it was causing my clients concern with who my employer  
9 was.

10 Q Now, when you moved over to Stanford, did your securities  
11 licenses move with you?

12 A Yes, they did.

13 Q And were you licensed by a broker dealer?

14 A Yes, I was.

15 Q What entity was your broker dealer?

16 A The broker dealer at Stanford was Stanford Group Company.

17 Q And you were a registered representative of Stanford Group  
18 Company?

19 A That's correct.

20 Q When you first joined Stanford as a registered rep of  
21 Stanford Group Company, what were your initial duties?

22 A Initially, I was brought over as a financial advisor, and  
23 so, when you go through a transition process, it takes a long  
24 time to move all your clients. It's a very lengthy -- lot of  
25 paperwork involved, and so it requires, you know, virtually



1 meeting every one of your clients and sitting down and  
2 explaining that process. So, primarily the first I would say  
3 year to year and a half that's all I did.

4 Q Did SGC -- could we call it SGC?

5 A Yes, that's fine.

6 Q Did it have a custodial element to it?

7 A Yeah, because of the independent nature, SGC at the time  
8 that I was brought on, their clearing firm, if you will -- I  
9 think that's what you're referring to -- their clearing  
10 arrangement was actually with Bear Stearns, which later, during  
11 my tenure, that transitioned over to Persian.

12 Q Now, when you moved over, if your clients moved over with  
13 you, did their investments that were invested with you at  
14 Merrill come over to Stanford?

15 A Yes, they came over and obviously were custodiated at Bear  
16 Stearns, you know, initially.

17 Q Now, you were originally registered rep, did you later  
18 take on any management duties?

19 A Yeah, later on, I became the sales manager in the Stanford  
20 Houston office.

21 Q And what did that involve?

22 A Primarily the role of the sales manager, at least the way  
23 it was done in Houston, was to communicate with the other  
24 advisors, make sure that they had the information from  
25 management to make sure that if there was any initiatives or

1 any kind of product updates or information that they had that  
2 information.

3 Most of Stanford's advisors were what we'd call well-  
4 seasoned. They didn't need a whole lot of training and so,  
5 there was a tendency for them to kind of, you know, not  
6 interact. And so, the concern was things would be going on at  
7 Stanford, primarily because of the growth and all of the  
8 changes, and they would not be aware of it. So, my role was  
9 just kind of communicate and make sure they had that  
10 information.

11 Q Now, with respect to your being a registered rep, were you  
12 regulated or were you subject to regulatory requirements of  
13 some kind?

14 A Absolutely.

15 Q And what were the -- did you have a -- was there a so-  
16 called office of simpler advisory jurisdiction? Did someone --  
17 ?

18 A I think in our industry they call that the compliance  
19 arena or compliance department.

20 Q And who was your compliance person? Who oversaw your  
21 activities as a registered rep?

22 A There was quite a few, so I don't think I could name all  
23 of them. Jane Bates was one of the initial ones when I first  
24 joined. She later left. Jack Pernod was in that  
25 (indiscernible). I can't recall any others, but there was --

1 it was a fairly large department.

2 Q As a manager, how many reps did you manage?

3 A That was a moving target, but if I remember correctly, by  
4 the time I left there was 25 to 30 advisors that were in the  
5 Houston office.

6 Q Did you receive or give what's called sales training as a  
7 registered rep?

8 A Yes, I did.

9 Q Okay. Could you explain to the Court what sales training  
10 is for a registered rep?

11 A Yes. Sales training is simply the process in which a  
12 financial advisor learns about the products or a product, if  
13 it's in particular; learns about, you know, if there's a  
14 certain strategy or theory. They learn about that. They learn  
15 about if there's oversight; how long the product has been  
16 around.

17 So, it's really kind of a deeper understanding for a  
18 financial advisor to really know what's going on so they can,  
19 in turn, take that knowledge -- that information -- and convey  
20 it to a client. So, we were kind of a conduit for that  
21 information.

22 Q Did you have annual compliance meetings?

23 A Yes, we did.

24 Q And what did the annual compliance meetings consist of?

25 A Compliance meetings were very involved discussions about

1 things that are taking place in the industry, regulatory  
2 changes that were taking place, different practices that were  
3 not appropriate that the regulators had found out about and so,  
4 you know, they'd want us to know about what's kind of going on  
5 out there.

6           It involved, you know, just making sure that we were  
7 doing things properly, ethically; that we were adhering to all  
8 the rules and the guidelines and so it was really kind of a  
9 50,000 foot view of the industry as a whole. And then, they  
10 would, as you went through the meeting, they would kind of  
11 bring it down to what was specifically going on in your  
12 particular office.

13 Q     Let me ask you, did issuers or representatives of issuers  
14 of products ever meet with the registered reps at Stanford?

15 A     Yes, they did.

16 Q     And did they provide product training?

17 A     Yes, they did.

18 Q     And how was the product training distinct from the sales  
19 training?

20 A     Well, I mean, the product training and sales training can  
21 kind of go -- work together. You know, everybody adopts their  
22 own kind of, you know, sales practices and approaches within,  
23 obviously, appropriate guidelines.

24           The product personnel over there would simply make  
25 sure you had, you know, the right materials; you had updated

1 materials. If you had any questions specific to the particular  
2 product, they would answer those questions. A lot of times  
3 they would offer the opportunity to sponsor events to bring in  
4 clients so they can further explain and, you know, solicit the  
5 products.

6 Q The Court has heard about Stanford International Bank  
7 certificates of deposit. When you came over to Stanford, SGC,  
8 were you required -- was it a requirement -- that you sell  
9 Stanford bank CDs?

10 A No, it was not a requirement, but that's one of the things  
11 that made Stanford very unique. It was a bank CD that paid an  
12 attractive yield, you know, certainly higher than what you  
13 could get in the United States. And so, it made for a  
14 compelling product to be able to offer your clients, but it was  
15 not a requirement.

16 Q How did you -- well let me ask you -- was it important for  
17 you to learn about the CDs, the Stanford bank CDs?

18 A Absolutely. That was pretty much required that you needed  
19 to learn about it, yes.

20 Q And how did you learn about the Stanford International  
21 Bank and the CDs it offered?

22 A There was various opportunities and things that Stanford  
23 had sponsored to learn about the product, you know. It started  
24 initially, as I mentioned, with Jay Comeaux with my  
25 introduction to the firm. Later, once you were there and

1 transitioned your broker business, Jason Green would come over  
2 and he would go in detail about the product -- the history of  
3 the product.

4 Q Let me stop you for a second. Who is Jason Green?

5 A Jason Green --

6 **THE COURT:** Your voice is quite loud, so you don't  
7 have to be quite as close to the mic.

8 **THE WITNESS:** Okay. Sorry.

9 Jason Green was the -- he ran the Baton Rouge  
10 Stanford office. He was also --

11 **BY MR. LANE:**

12 Q Actually, you know, if I could just suggest. You don't  
13 have to worry about the mic, because she's picking up what you  
14 say.

15 A Okay.

16 Q And you can just look at the judge and not worry about the  
17 mic.

18 A Okay.

19 Q Okay. So, could you tell the judge who Jason Green --

20 **THE COURT:** Well, yeah, we do care. I want the  
21 lawyers to hear. See, that's not quite loud enough. I do want  
22 the lawyers to hear.

23 **THE WITNESS:** Okay. Jason Green ran the Baton Rouge  
24 office -- Stanford Baton Rouge office. He also was on the  
25 Stanford Trust Company board. But as it relates to the CD, he

1 was the person that was in charge of that training. He was the  
2 gentleman that had quite a bit of experience, you know, with  
3 the bank and with personnel at the bank and so, he was the  
4 first person that would come over and kind of do a more formal  
5 training as it relates to the CD and the whole program.

6 **THE COURT:** He was on the board of what?

7 **THE WITNESS:** He was on the board of Stanford --

8 **THE COURT:** You know, it is hard to hear -- sorry.

9 **THE WITNESS:** Pull it -- okay.

10 **THE COURT:** I'm sorry.

11 **THE WITNESS:** He was on the board of the Stanford  
12 Trust Company, as well as he was a financial advisor and he was  
13 also the managing director of the Baton Rouge office.

14 **BY MR. LANE:**

15 Q In your initial product training on Stanford International  
16 Bank and its products, what were you told by the Stanford  
17 International Bank representatives about the product?

18 A Well --

19 Q And about the bank, I should say.

20 A That's a long answer. Essentially, if you boil it down  
21 based on the training materials, you know, the bank was -- the  
22 CD was like any other CD. It's a promise to pay and so it  
23 offered a more attractive rate than what you could get in a  
24 typical U.S. bank. They had groups of people in Memphis,  
25 Tennessee that oversaw -- managers that they hired all

1 throughout the globe that managed various pieces of this  
2 portfolio. And so, it had very many --

3 **THE COURT:** Where were those people?

4 **THE WITNESS:** Well, there's several groups of people.  
5 The first -- the underlying managers of the portfolio were  
6 typically the ones that I was aware of were people like Credit  
7 Suisse.

8 **THE COURT:** But where? Where were these people? In  
9 Baton Rouge?

10 **THE WITNESS:** No. I said Memphis.

11 **THE COURT:** Memphis.

12 **THE WITNESS:** Yeah. Yeah. That was another group.  
13 And if I can explain, the underlying portfolio was divvied up  
14 and there was various different groups, you know, throughout  
15 Europe that managed a certain piece based on, I guess, the  
16 board's direction.

17 And then, in Memphis, there was a group of analysts  
18 that kind of oversaw those portfolio managers. So, they were  
19 kind of keeping tabs on the managers, if you will.

20 **BY MR. LANE:**

21 Q Let me just ask you. Is this what you were told by  
22 Stanford International Bank representatives?

23 A This is what I was told when I went to Memphis to do  
24 further due diligence. This is what I was told again and this  
25 is what analysts that were there had told us.



1           **THE COURT:** Just to clarify?

2           **THE WITNESS:** Yes, ma'am.

3           **THE COURT:** The portfolio managers you're referring  
4 to are people who invested the money that was brought in  
5 through the CD sales. Is that what you mean?

6           **THE WITNESS:** What I mean is the bank.

7           **THE COURT:** And what were they managing? What  
8 assets?

9           **THE WITNESS:** They were managing the assets of the  
10 bank. So, i.e., the depositors' assets.

11          **THE COURT:** Which are CDs?

12          **THE WITNESS:** Which were -- and then -- CDs were sold  
13 to the investor. So, you get a piece of paper that is a CD.  
14 In turn, you give the bank your money. That money ultimately  
15 went to those portfolio managers.

16          **THE COURT:** Okay. That's my point. And the bank did  
17 not have deposits as a typical commercial bank would have,  
18 correct?

19          **THE WITNESS:** That is correct.

20          **THE COURT:** Okay. So, these portfolio managers  
21 around the world -- but headed up in Memphis?

22          **THE WITNESS:** Well, Memphis, as I understood it, was  
23 kind of the oversight analysts making sure that the respective  
24 portfolio managers were doing their job and sticking to their  
25 marching orders, whatever that may have been. So, they added

1 another layer of oversight and protection as I understood it.

2 **BY MR. LANE:**

3 Q You said you received some materials in connection with  
4 your training on at the bank. Can I ask you to turn to the  
5 document that's marked 52 in your binder there? Can you --

6 And your Honor, I don't believe there's an objection  
7 to 52.

8 **THE COURT:** Are you offering 52?

9 **MR. LANE:** Yes.

10 **THE COURT:** Okay. Hearing no objection, I'll receive  
11 it.

12 **(Defendants' Exhibit Number 52 was received in evidence)**

13 It would be great if it could be rotated 90 degrees -  
14 - clockwise.

15 **MR. LANE:** Here we go.

16 **THE COURT:** Thank you.

17 **BY MR. LANE:**

18 Q Could you please tell the Court what this document is?

19 A This looks like a document or a sales spread sheet showing  
20 the International Bank's ten-year investment portfolio of  
21 performance.

22 Q Did you receive this document in connection with your  
23 training?

24 A Yeah, this was part of a training package that we would  
25 have received on the bank, along with some other documents that

1 were in the package.

2 Q And this reflected its returns year to year -- investment  
3 return?

4 A Yes. But to be clear, this was the portfolio's  
5 performance at the bank. It wasn't what the client received.

6 **THE COURT:** I understand.

7 **THE WITNESS:** But yes, that's correct.

8 **BY MR. LANE:**

9 Q Would this be the performances that would be reflected in  
10 the annual reports for the bank that you saw from time to time?

11 A I don't recall seeing these numbers in this fashion in the  
12 annual report.

13 **THE COURT:** Well, there's a predicate. Did you see  
14 the annual reports?

15 **THE WITNESS:** Yes.

16 **THE COURT:** Okay.

17 **BY MR. LANE:**

18 Q Let me ask you to turn to Exhibit 224 and that's the next  
19 one. And take a moment if you need to. But please, if you  
20 could, tell the Court what generally that document is and then  
21 we'll go through it.

22 A Yes. This looks like the training manual that financial  
23 advisors received, I think, from Jason Green. Yes, I did  
24 receive one of these.

25 Q Okay.

1 Your Honor, I offer 224.

2 **THE COURT:** Received.

3 **(Defendants' Exhibit Number 224 was received in evidence)**

4 If you're going to object, gentlemen, you need to  
5 speak up quickly, right? Okay.

6 **BY MR. LANE:**

7 Q Let's walk through this, if we could. Page 1, is that  
8 just the Caribbean Islands, where Antigua is located?

9 A Yes.

10 Q I'm going to skip over -- there's a little history of  
11 Antigua and Barbuda. And then the fourth page, it states  
12 "regulators." And it says "the financial services regulatory  
13 commission, government of Antigua and Barbuda." Were you told  
14 anything about the FSRC and its role?

15 A Yeah. We were told that the FSRC was the regulatory body  
16 that oversaw the banking activity in Antigua.

17 Q And the next page, next couple of pages, entitled at the  
18 top "licensing and supervision," and then the FSRC is  
19 referenced in those. Do those contain some of the things you  
20 were trained about the FSRC's role?

21 A Yes.

22 Q Let me ask you to go to "management support." Early did  
23 you receive this Exhibit 224 when you were in Houston, when you  
24 were in Memphis, or when you were in Antigua?

25 A I received this when I was in Houston.

1 Q Okay. Did you receive this before you went to Antigua or  
2 visited Memphis or Antigua?

3 A I believe I received this before I went to Antigua and  
4 Memphis.

5 Q Okay. I want you to turn to the page called "management  
6 support," and it has two hands shaking. I don't have page  
7 numbers and I apologize for that, so I'm going to have to  
8 describe --

9 A I'm there.

10 Q Do you see that page? It says, "Management Support:  
11 Support from Stanford affiliates." And did you understand  
12 there were affiliated companies of Stanford?

13 A Yes.

14 Q And then, it says, "Portfolio Management: CFO's office in  
15 Memphis, Tennessee." Who was the CFO?

16 A Jim Davis.

17 Q And was he located in Memphis?

18 A Yes, he was.

19 Q Who was the chief investment officer?

20 A Laura Pendergest at that time -- now Laura Pendergest-  
21 Holt.

22 Q And where was she located?

23 A In Memphis.

24 Q Let me ask you to turn to the next page. And this is a  
25 quote, do you see?

1 A Yeah.

2 Q Who's this quote from?

3 A From Mr. Stanford.

4 Q Could you read the quote?

5 A "We offer clients quality products and excellent  
6 return on investment and a high degree of safety, but  
7 we only start there. Ultimately, we're successful  
8 because we're not content to settle for anything less  
9 than the best from ourselves and for the client. R.  
10 Allen Stanford."

11 Q Did you on occasion hear Mr. Stanford speak at events  
12 where financial advisors were present?

13 A Yes, I did.

14 Q I'm going to ask you a little bit more about that in a  
15 moment, but I want to continue to go through your training  
16 materials here. Do you see the next page, "factors mitigating  
17 SIV credit risks"?

18 A Yes.

19 Q And "quantitative and qualitative." And what did you  
20 understand this to be teaching you about -- these pages of this  
21 document?

22 A Well, basically, they were comparing, you know, the CD to  
23 other more known investments and going through a comparison  
24 ultimately leading you to, you know, what are the risks of the  
25 bank. And that's my understanding.

1 Q The next page, "structure, manager of managers' team," on  
2 the second line. You referred earlier in your testimony to  
3 managers at Credit Suisse and different places like that. Were  
4 those the managers you were referring to?

5 A Yes.

6 Q And what was the manager of managers' team that you were  
7 told? What were you told that the manager of managers' team  
8 was?

9 A The manager of managers' team was effectively the role  
10 that Memphis played on overseeing the underlying portfolio  
11 managers like Credit Suisse.

12 **THE COURT:** Who was doing that or who was in charge  
13 of doing that? I don't know.

14 **THE WITNESS:** Yeah, my --

15 **BY MR. LANE:**

16 Q Or who were you told was doing that?

17 A Yeah. My understanding that the oversight people were Jim  
18 Davis and Mrs. Holt, as well as the analysts that worked  
19 underneath them.

20 Q A couple of lines down there -- and this is again at the  
21 bottom it's Stanford International Bank, Limited. Is that  
22 correct?

23 A That's correct.

24 Q And then, it says, "Affiliation: Part of a global family  
25 of companies." Do you recall what the bank representatives

1 told you about the global family of companies?

2 A Well, in Stanford there was many different entities and so  
3 it's my understanding that, you know, the Stanford  
4 International Bank was one of those entities in the network of  
5 companies.

6 Q And it says, "Access to arguably the world's best money  
7 managers." Are those the money managers you were referring to  
8 earlier?

9 A Yes.

10 Q And you were told some of them were in Europe?

11 A Yeah. Primarily Switzerland, but there was others in the  
12 UK and, I think, Canada.

13 Q It says, "Diversification: Globally diversified  
14 portfolio." What was that a reference to?

15 A That was a reference to the underlying investments in the  
16 portfolio were assets that were in and around the globe and not  
17 only diversified by country, but certainly by asset class.

18 Q Now, at the bottom it says, "Capital: Regulatory required  
19 minimum capital 5 percent." What did they explain that meant?

20 A That was explained to us and my understanding, the amount  
21 of capital that a private entity -- private bank -- had to  
22 maintain in order to be, you know, in compliance with the  
23 rules.

24 Q The next page there, a list of factors -- now, let me ask  
25 you. There's a lot of information here about the bank and



1 about the CDs. What was your understanding that the purpose  
2 that the bank was sharing this information with you about  
3 itself and about its products?

4 A Well, like I mentioned before, I mean, this was an  
5 educational process so financial advisors would have a better  
6 understanding of what this product was all about and so, in  
7 turn, they could convey that to the clients or potential  
8 prospects.

9 Q Was a CD a so-called sold product?

10 A Yes.

11 Q What does that mean? Could you tell the Court?

12 A A sold product basically because this was a Reg D private  
13 placement offering. You couldn't put a billboard up and just  
14 solicit the general public, so we had to, one, pre-qualify a  
15 prospect based on Reg D requirements, net worth or income, or  
16 both; and then once you've done the pre-qualification, you  
17 could get the marketing material and then sit down and talk to  
18 a prospective client about the product.

19 Q Was it your understanding that the purpose of educating  
20 you on the product was so that you could communicate it to  
21 potential customers?

22 A Yes.

23 Q Now, you see where it says, "Retained earnings: No  
24 shareholder dividends ever taken." Do you see that reference?

25 A Yes, I see it.

1 Q Now, did you understand that Allen Stanford was the only  
2 shareholder?

3 A Yes.

4 Q And what does it mean that they told you that he never  
5 took dividends, ever.

6 A My understanding is that he never took anything out of the  
7 capital account and so, therefore, everything that the bank  
8 earned stayed in retained earnings unless it dividend out to  
9 him.

10 Q It states, "Liquidity," well, it says, "Earnings from  
11 capital enhanced SIDs returned." Was that a connected concept  
12 of the no shareholder dividends concept?

13 A Yes.

14 Q And the "Liquidity: Policy establishes liquidity  
15 requirements." What were you told by the bank about that  
16 policy and liquidity?

17 A The number -- various of the materials it's changed, but  
18 bottom line is we were told that the bank's portfolio could be  
19 liquidated in T plus 3, T plus 4 and that number would be  
20 somewhere in the 85 to 95 percent range. So, in four days, you  
21 know, the bank could be pretty much all in cash.

22 Q So -- just so we understand. T plus 4 means?

23 A T stands for trade date and then you tack on three or four  
24 days, so three to five days in total, the bank virtually could  
25 be converted into cash.

1 Q Under "marketability," it says, "Predominantly marketable  
2 securities and portfolio." Did the bank also represent that to  
3 you?

4 A Yeah. That supports the T plus 3 or T plus 4.

5 Q Let's go to the next page. It says -- the third line down  
6 -- "Working assets: Minimal fixed assets." What were you told  
7 about that policy or that approach?

8 A Well, basically, the bank wasn't investing in, you know,  
9 land in buildings and that sort of thing.

10 Q So, no land no buildings?

11 A Very nominal. I mean, it was not part of the investment  
12 philosophy or the strategy.

13 Q Where it says, "Lending policy: Very conservative; 80  
14 percent loan to deposits." Would you explain what you were  
15 told about that lending policy?

16 A Basically --

17 **MR. KENNEDY:** Objection, your Honor. Objection, your  
18 Honor. Lack of foundation and personal knowledge. I don't  
19 think that counsel has laid the predicate for these  
20 conversations and these facts about the investment strategies  
21 of the company. I'd like some more detail about it.

22 **THE COURT:** The question was what he was told. So,  
23 tell us what you were told. Overruled. The question was  
24 proper.

25 **THE WITNESS:** What I was told was essentially that

1 loans were made to depositors, so therefore, they reasoned the  
2 certificate of deposit as collateral and they would loan up to  
3 80 percent of the value of the CD.

4 **BY MR. LANE:**

5 Q Let me ask you. There's a section called "Products and as  
6 fixed CDs, flex CDs and index to length CDs. You see that?

7 A Yes.

8 Q And those were all the bank products?

9 A Yes.

10 Q And it goes on to describe a number of products. I won't  
11 go into detail on each one. And then you see there's a page  
12 that says "Investment risk and return charts."

13 A Okay.

14 Q And it states:

15 "The charts outline the risk return characteristics  
16 of a number of different investments. The goal is to  
17 properly frame the risk return aspects of SIV CDs  
18 within the context of other popular investments."

19 Did I read that correctly?

20 A Yes.

21 Q Okay, now, is that what the charts follow -- compare  
22 various different investments?

23 A Yes.

24 Q And the first page is cash and equivalents, high quality  
25 bonds and funds, high yield bonds and funds, fixed annuities,

1 insurance policy; it goes on. The next page, variable  
2 annuities, common stock and stock funds, real estate REITs, RE  
3 funds, precious metals, hedge funds; and then, it lists a  
4 number of the three different products, the bank products. Do  
5 you see that?

6 A Yes.

7 **THE COURT:** Were the CDs insured by the FDIC?

8 **THE WITNESS:** No, they were not.

9 **THE COURT:** So, what did they explain to you was the  
10 purpose of excess FDIC insurance on the page that's right  
11 before "products"? It's the very last line on that page. Are  
12 you on that -- did you have --?

13 **THE WITNESS:** Yeah, I just found it, yes.

14 **THE COURT:** Okay.

15 **THE WITNESS:** Yeah, it was my understanding the  
16 excess FDIC insurance was, you know, FDIC only exists in the  
17 United States, so when you have cash, you know, outside the  
18 jurisdiction of the United States, they purchased insurance to  
19 protect that cash while it sat in those banks waiting to be  
20 invested. So, it was outside the realm of the United States to  
21 protect the cash. That's my understanding of what excess FDIC  
22 was.

23 **THE COURT:** Did they have any money in the banks in  
24 the United States?

25 **THE WITNESS:** I wouldn't have that knowledge. I

1 didn't know.

2           **THE COURT:** You don't -- okay. But I didn't mean did  
3 they. That was a bad question. Were you told, as part of the  
4 training, that there was ever any FDIC insurance?

5           **THE WITNESS:** No. I was never told or had the belief  
6 that there was FDIC insurance associated with this CD at all.

7           **THE COURT:** Okay. Sorry.

8 **BY MR. LANE:**

9 Q Now, in the last page, it has "SIV fixed CDs, SIV flex  
10 CDs, SIV index length CDs." And I think it said on the first -  
11 - prior to these tables -- it was intended to compare it to  
12 other popular investments. You see where it states --  
13 describes a number of different characteristics of these  
14 investments?

15 A Yes.

16 Q And it states, "SIV fixed CDs: Best suited for investors  
17 seeking predictable high income returns with principal and  
18 purchasing power protection in exchange for accepting some  
19 credit risk." Let me ask you briefly. What is credit risk?

20 A Credit risk in the form of a bank is the, you know, credit  
21 worthiness of the institution issuing the CD. So, in this  
22 case, it was Stanford International Bank.

23 Q So, the credit risk to a Stanford CD would be the risk  
24 that the bank wouldn't be good for it?

25 A Right. The risk to the CD or depositor is the financial

1 stability of the institution issuing the CDs.

2 Q And you see in each category it states, "For the SIV fixed  
3 CDs" -- and by the way, were any of these three products more  
4 popular than the others?

5 A Yes. The fixed CD was I believe to be the most popular  
6 product.

7 Q And it states, "Annual income: High." Then the next,  
8 "Potential for loss of principal." You see "potential  
9 volatility"? What does it say there for this product?

10 A For the flex CD?

11 Q Yes.

12 A It has a plus and says "none."

13 Q For the interest rate risk?

14 A It has a plus and says "none."

15 Q Now, as these, I guess, other products -- various aspects  
16 will either have a plus or a minus or a neutral zero?

17 A Yes.

18 Q So, you can kind of understand the characteristics?

19 A Right. There is a comparative chart.

20 Q It says "Liquidity risk." What does it say there?

21 A Under the fixed portion?

22 Q Under the SIV fixed.

23 A Yes. Fixed. It has a plus and says "low." It says  
24 "modest surrender charges."

25 Q So, that was a positive for this investment?

1 A That was a positive attribute to this, yes.

2 Q "Transaction costs"?

3 A It has a plus and says "low" and "only on surrender."

4 Q And then, "Credit risk," that is a risk that Stanford  
5 might not be good for paying off the CDs. What does it say  
6 there?

7 A It has a plus and says "low to zero, moderate" and then  
8 says "C notes."

9 Q Did you travel to Antigua as part of your training?

10 A Yes, I did, on two occasions.

11 Q And tell me about that. Or tell the Court about that.

12 A The first occasion was August of '04. It was with another  
13 group of financial advisors. It was part of a due diligence  
14 trip. We were escorted by Jane Bates and we went down to meet  
15 the various personnel at the bank and I got to see what, you  
16 know, how the operations ran down in Antigua; met certain  
17 personnel that myself and my assistant may have an occasion to  
18 talk to.

19 Q Did you ask questions about the bank or its operations?

20 A Yes. There was a formal presentation given by Juan  
21 Rodriguez on, you know, everything that you just saw here, the  
22 jurisdiction and how the bank operates.

23 Q Did you also make a trip to Memphis in connection with  
24 your training?

25 A Yes, I did.



1 Q Did you meet the chief investment officer at that time?

2 A Yes, I did.

3 Q Were you trained on the product by the chief investment  
4 officer?

5 A Yeah. That was again another trip for due diligence with  
6 some other advisors to kind of learn the role that the Memphis  
7 group played with the bank.

8 Q What were you told the chief investment officer Holt's  
9 role was?

10 A Well, she told us that, you know, it was her job to, along  
11 with Mr. Davis, was to oversee, you know, the portfolio; the  
12 managers; to monitor the bank; to monitor investments, you  
13 know, to make investment decisions; to help create policy; you  
14 know, it was all encompassing to deal with the underlying  
15 investments of the portfolio.

16 Q When you were in Memphis, were you actually trained about  
17 Stanford International Bank based in Antigua and its portfolio  
18 of assets?

19 A Well, I mean, the role of Memphis was -- it was overseeing  
20 the International Bank's, you know, portfolio. So, you know,  
21 the training there was just more specific on the role that they  
22 played and how they oversaw the underlying managers and what  
23 they did and how they interacted with those managers.

24 Q During your training, whether in Houston, Memphis or  
25 Antigua, were you ever told that the assets of the bank were

1 divided up into three so-called tiers?

2 A Never.

3 Q Did you hear of a so-called tier 3?

4 A Never.

5 Q Did anyone in Memphis or anyone involved in the management

6 -- purportedly involved in the management of the bank's

7 investments -- ever indicate that only a small portion of the

8 investments were managed out of Memphis?

9 A Never.

10 Q Or that only a small portion of the assets were subject to

11 the investment philosophies that they announced?

12 A No, never said that or made that representation.

13 Q Based on the information that was given to you about the

14 bank -- well, did you transmit that information you received

15 about the product and about the bank to potential customers?

16 A Yes, I did.

17 Q And did you provide them materials, as well, in connection

18 with sales of Stanford International Bank CDs?

19 A Yes, I did.

20 Q I want you to look at what's Exhibit Number 36 in your

21 binder there. And this is an exhibit that's already in

22 evidence. It is the annual report for 2006, which was released

23 in 2007. And let me ask you that in 2007 you were still at

24 Stanford at that time; is that correct?

25 A Yeah. The June annual reports came out April, May, June-

1 ish time frame.

2 Q Let me ask you before we move on to the annual report and  
3 the representations in it, when you were in Memphis and you met  
4 with Ms. Holt, did you ever propose an investment that you  
5 should consider offering at the bank?

6 A Yeah, I did propose an investment that I thought would be  
7 appropriate for the bank's portfolio.

8 Q What kind of investment was that?

9 A Essentially, it was a limited partnership investment of a  
10 20 year old limited service hotel operator that paid a monthly  
11 return.

12 **MR. ZIMMERMANN:** Excuse me. This is very  
13 interesting, but I object to relevancy, certainly to Mr. Lopez.  
14 It's not relative to any contested issue in this case.

15 **THE COURT:** Okay. What is the relevance?

16 **MR. LANE:** I'll connect it up, your Honor. I believe  
17 what I understand the testimony will be is that he was told  
18 that the bank does not make investments in real estate.

19 **THE COURT:** Oh, okay. Go ahead, then.

20 **BY MR. LANE:**

21 Q Okay. What did she tell you?

22 A Eventually, the bank --

23 **THE COURT:** First, we cut you off. Tell us what the  
24 investment proposal was.

25 **THE WITNESS:** Again, it was a portfolio of limited

1 service hotels throughout the United States. It had been  
2 around for, you know, close to 20 years. It was a monthly  
3 paying investment which I thought would make sense with the  
4 bank's obligation to pay interest out monthly. It was a  
5 publicly reporting company although it was private. It was big  
6 enough because they had to adhere to Sarbanes-Oxley, so it had  
7 all the transparencies. So, that's essentially what the  
8 investment was.

9 **THE COURT:** Okay.

10 **BY MR. LANE:**

11 Q What did the chief investment officer tell you with  
12 respect to --?

13 **THE COURT:** Who did you talk to about this?

14 **THE WITNESS:** I made that proposal to initially Jay  
15 Comeaux and then I think it got moved up the food chain and  
16 then I brought it up to Laura Holt.

17 **BY MR. LANE:**

18 Q And what was the response of Laura Holt?

19 A Laura said that, you know, that's not an appropriate  
20 investment, you know, for the bank because it's real estate and  
21 it's not liquid.

22 Q And was that consistent with the representations that you  
23 had -- that you discussed earlier that had been made to you --  
24 minimal fixed assets, high liquidity investments?

25 A Yes. That was consistent.

1 Q Let me ask you to look, if you would at the annual report,  
2 36, that we were starting to look at. When you received these  
3 annual reports each year, did you look through them closely?

4 A Yes, I did.

5 Q And why would you do that?

6 A Well, I mean, as the training material points out, it you  
7 take it to its end conclusion, the risk that you're taking is a  
8 credit risk. So, the natural step was then you want to look at  
9 any and all financials as it relates to that entity.

10 Q Did you rely on this annual report when you brought it to  
11 your clients?

12 A Yes, I did.

13 **THE COURT:** When you say it's a credit risk, are you  
14 saying that it's -- when your customer invests in a CD, he or  
15 she's taking a credit risk in the bank?

16 **THE WITNESS:** Yeah, the promise to pay.

17 **BY MR. LANE:**

18 Q So, let me ask you to walk through this a little bit with  
19 me. I'm not going to read into sections of it, but I'm just  
20 going to ask you to take a look. There's an actual letter from  
21 the chairman describing the results. That's it. I'm going to  
22 give the Bates number at the very bottom -- 16. Do you see  
23 that?

24 A Yes, I do.

25 Q And did you read this letter in connection with your

1 familiarizing yourself with the product and so forth?

2 A Yes, I did.

3 Q Now, tell me about -- what you understood, or rather --  
4 let me step back. Let me withdraw that.

5 Did you hear Mr. Stanford speak at events where FAs  
6 were present?

7 A Yes, I did.

8 Q On how many occasions?

9 **THE COURT:** Where financial advisors were present.

10 **BY MR. LANE:**

11 Q Yes.

12 A I would say probably four to five times.

13 Q Could you describe with as much specificity the first time  
14 you heard Mr. Stanford at the first event?

15 A The first event was their employee of the year, which was  
16 the Jean A. Gilstrap awards. And I was very new to the  
17 company. Generally it's done early in the year and I started  
18 in January, so I'd only been there a short period of time. And  
19 it was kind of an overview of the success and how the company  
20 was doing and then the introduction of the different finalists  
21 for that award.

22 Q Did you also -- were there also sales gatherings of some  
23 kind that he would appear at occasionally?

24 A He was never at any sales type meetings.

25 Q What were the other three occasions that you heard him

1 speak?

2 A They were what they called the TPC, which is the Top  
3 Producer's Club, those people that had done a certain amount of  
4 CD sales were invited to these events and, generally, he was  
5 the initial speaker and gave overviews -- he and Mr. Davis  
6 would give an overview of the company and the success and what  
7 was going on. And then there was kind of a recognition of the  
8 top producers.

9 Q Did he speak at the '07 Top Producer Club gathering, if  
10 you recall?

11 A I don't believe I was in attendance at the '07.

12 Q What about the '06?

13 A Yes, he did.

14 Q Where did that take place?

15 A I don't recall. They all kind of run together. I mean, I  
16 can tell you the ones I was at, but I don't know specifically.

17 Q Where were they located, the ones that you were at?

18 A Yeah. I went to -- there was one in Houston, New York  
19 City and then Zurich, Switzerland.

20 Q Tell me with as much specificity as you can what  
21 Mr. Stanford said at the Top Producer Club with respect to the  
22 health of the bank, its investments, its growth and so forth.

23 A I mean, the whole time I was there, any and all  
24 discussions as it relates to the bank was always positive.  
25 "It's doing well. It's in good shape." There was never any

1 negative news or anything that was derogatory or anything of  
2 that nature. Everything was things were going well. The bank  
3 was going well. Deposits were being added and they were  
4 weathering, you know, doing well in the investment community.  
5 So, it was always positive.

6 Q Did Mr. Stanford encourage sales of the bank product?

7 A Well, Mr. Stanford was a very charismatic, you know,  
8 speaker and so, you know, just as his way of speaking was  
9 encouraging people, so yes, he did.

10 Q There are a number of financial statements in this annual  
11 report reflecting cash flows and amounts under deposit and so  
12 forth, or total assets. Would you review those when you  
13 received the annual report each year?

14 A Yes.

15 Q And would you convey that information -- the information  
16 about those figures -- to your clients in connection with the  
17 sales process?

18 A Well, as I mentioned, you know, because of there being a  
19 credit risk, you know, I made a point to give an annual report  
20 to every depositor that I had so they would have that same  
21 information and could look it over just like I did. So, yeah,  
22 I conveyed it.

23 Q Was this annual report used as a sales piece?

24 A I would say yes, it was used as a sales piece.

25 Q Did you have an understanding as to Mr. Stanford's role --



1 I guess you saw the letter -- did you have an understanding of  
2 his role in the creation of the document?

3 A It was my understanding he was very particular about, you  
4 know, anything written about the company and the bank and so I  
5 understood him to be very actively involved in the creating of  
6 this document.

7 Q While you were still at Stanford -- let me ask you. After  
8 you left Stanford, after the collapse of Stanford, did you  
9 learn second hand about various allegations concerning actual  
10 assets?

11 A Yes. There was a time frame between when I left and that,  
12 though.

13 Q But while you were still there, while you were still  
14 meeting with the clients, were you ever -- did you ever come to  
15 learn that a large portion of the assets were in the form of  
16 promissory notes from Allen Stanford to the bank?

17 A No.

18 Q Did you ever learn that there was a large portion devoted  
19 to a so-called real estate investment of the assets?

20 A No.

21 Q Would that have concerned you?

22 A Absolutely.

23 Q What ultimately led you to leave Stanford?

24 A That's been pretty well documented. There was a series of  
25 things that, you know, as I recall them, data points that

1 concerned me as it relates to the bank, the big issue being the  
2 Treasury Department filing a disclosure form that every U.S.  
3 citizen that has money offshore in excess of \$10,000 must  
4 report that to the Treasury. And I had concerns about --

5 **THE COURT:** You mean the United States Treasury  
6 Department.

7 **THE WITNESS:** United States Treasury Department.

8 **THE COURT:** Having this reg.

9 **THE WITNESS:** Yes. So, you know, my concern was I  
10 was being told I could not remind clients either in writing or  
11 e-mail, in any written form, that they possibly had this  
12 requirement and they need to check with their CPA. And that  
13 concerned me, because I'm the person who got them in there. I  
14 didn't want to be liable if I left them a phone message and  
15 they didn't receive it and they wouldn't file this form.

16 Also, as it relates to IRA monies, they went through  
17 Stanford Trust Company, which that's a whole other matter. It  
18 was my understanding and belief that the trust company had that  
19 obligation to file by disclosure form on behalf of IRA clients.

20 Stanford's response -- Stanford's management's  
21 response to me was, you know, they are just a custodian.  
22 They're not a trustee; therefore, they don't have that  
23 requirement. I sought outside counsel that had a specialty in  
24 that arena and they completely disagreed.

25 Q While you were at Stanford, while you were a financial

1 advisor, did you sell -- what was the volume, if you can  
2 estimate it, of CDs that you sold to Stanford customers relying  
3 on the information and materials that they provided -- the bank  
4 had provided you?

5 A Me personally as a financial advisor? I think at the peak  
6 of my total sales was \$30 million.

7 Q And when did you leave -- when actually did you tender  
8 your resignation and leave Stanford?

9 A I resigned on December 12, 2007, although Stanford's  
10 position was they fired me on December 17th.

11 Q And did you have actually an exit interview?

12 A I'm not sure I could quite characterize it as an exit  
13 interview. It was more of a surprise attack and I was  
14 questioned if I was happy and I wanted to stay and I told them  
15 I wasn't happy and so I made a decision that I didn't want to  
16 stay.

17 **THE COURT:** You did not want to --?

18 **THE WITNESS:** Did not want to stay and so --

19 **THE COURT:** So, when was that conversation versus  
20 when they say they fired you?

21 **THE WITNESS:** Right. That's where it gets confusing.  
22 December 12th I told Jay Comeaux in management I did not want  
23 to stay. I don't think he knew what to do and so we had a  
24 gentlemen's agreement that we would work through it and we  
25 would, you know, work out a transition, which is what everybody

1 that I was ever involved with on the recruiting side, they had  
2 told everybody that had ever come to that company, you know, if  
3 it's not for you, then you will figure out how to transition  
4 out of here. Well, that's not what I was promised.

5 So, December 17th, I got a phone call in the car and  
6 said, "Don't come back."

7 **BY MR. LANE:**

8 Q After you left Stanford, did you ever meet with  
9 representatives of any government agency?

10 A Yeah, in that so-called exit interview on December 12th,  
11 I'd asked a series of questions regarding the SEC investigation  
12 that had been initiated in May of 2005. I asked what the  
13 status of that was. I asked is there any other issues going on  
14 that I was unaware of and basically in that interview process  
15 Jay Comeaux said there were no issues or outstanding items  
16 whatsoever.

17 So, in January of 2008, I decided to call the SEC and  
18 to ask if that was true; was there still an investigation going  
19 on. And they told me absolutely, which that was a shocker.  
20 And so, at that point I pretty much figured that everything  
21 that was told to me I probably need to go verify and check.  
22 And so, that's when we began to do that.

23 **THE COURT:** And to do that, what did you do?

24 **THE WITNESS:** Well, the SEC was curious why I was  
25 calling, but we started to do some digging to see if there was

1 any issues with the IRS, state securities --

2 **THE COURT:** When you say we?

3 **THE WITNESS:** I had a partner that basically exited  
4 at about the same time that I did.

5 **THE COURT:** Oh, you began your own informal  
6 investigation?

7 **THE WITNESS:** Correct.

8 **BY MR. LANE:**

9 Q Did you ultimately meet with the SEC?

10 A Yes. We met with SEC.

11 Q There was a reference in a document that was between  
12 executives that was read earlier and it said -- the quote was,  
13 "Tidwell has thrown down the gauntlet." Do you know if there  
14 were any other Tidwells at Stanford to your knowledge?

15 A To my knowledge, I think there was one early when I got  
16 there, but I would have to imagine that was probably referring  
17 to me.

18 Q Okay. I appreciate your patience.

19 I'll pass the witness at this time.

20 **THE COURT:** Do you need water? That's for you.

21 I'm sorry. The air conditioning went off. We're  
22 trying to get it back on. If it gets really, really bad, you  
23 can be like, you know, one of those old time shows and take  
24 your jackets off, but not yet.

25 **MR. UNIDENTIFIED:** We'll suffer for the public fisc,

1 your Honor.

2 **THE COURT:** Yeah, there you go.

3 **MR. KUNIANSKY:** Your Honor, could you switch the  
4 computer over to --

5 **THE COURT:** Sure.

6 **MR. KUNIANSKY:** -- to Mr. Cramer?

7 **THE COURT:** Oh, yes, okay. They're in the back.

8 **CROSS EXAMINATION**

9 **BY MR. KUNIANSKY:**

10 Q Good afternoon, Mr. Tidwell. My name is Richard Kuniansky  
11 and I represent Mark Kuhrt. You and I have never met or  
12 talked, correct?

13 A Correct.

14 Q Do you know Mark Kuhrt ever so slightly? Is that correct?

15 A Yes. I know his name. I don't think we've ever met. If  
16 we did, it was --

17 Q Mark, stand up. Do you recognize him from hallways or  
18 something?

19 A Vaguely.

20 Q Okay. Vaguely.

21 A Right.

22 Q But you all have never really had any kind of substantive  
23 discussions about any of the things you've testified about?

24 A That is correct.

25 Q Now, you've been a financial advisor for quite a period of

1 time, correct?

2 A Correct.

3 Q And you have many different licenses in the financial  
4 industry, correct?

5 A Correct.

6 Q And you would consider yourself, I assume, pretty  
7 knowledgeable in financial instruments. Is that right?

8 A Correct.

9 Q And what I want to do -- you also have some understanding  
10 of the relationship of some of these Stanford Group of  
11 entities; is that correct?

12 A Yes.

13 Q Could we put up that first slide? And can you see that up  
14 in front of you? Is that on your computer screen? It says  
15 "relationship of relevant entities."

16 A Yes.

17 Q And what I want to show you, this SGC -- do you see on the  
18 kind of right hand -- yes -- "SGC FA's market investments  
19 including SIBL CDs." Do you see that?

20 A Yes.

21 Q Okay. There was something called a Stanford Group  
22 Company. Is that correct?

23 A SGC, Stanford Group Company.

24 Q And that's one of the entities or the entity that I  
25 believe that you worked for. Is that correct?

1 A Yes.

2 Q And you were a financial advisor for them and then later a  
3 manager of financial advisors for them, correct?

4 A Correct.

5 Q Now, the CDs are actually sold by or issued by a bank in  
6 Antigua called Stanford International Bank, Limited. Is that  
7 correct?

8 A Correct.

9 Q And that's a completely different entity than SGC,  
10 correct?

11 A Correct.

12 Q And the president of that entity was Juan Rodriguez-  
13 Tolentino, correct?

14 A Correct.

15 Q And were you aware that the head accountant there was a  
16 gentleman named Banu Persaud?

17 A The name seems familiar, but I never met him.

18 Q Okay. Now, we also show -- I've got up here something  
19 called correspondent banks. But when somebody bought a CD  
20 through SGC, issued by SIBL, the money didn't actually go into  
21 SIBL's coffers, did it?

22 A No.

23 Q It went to correspondent banks of SIBL. Is that correct?

24 A Correct.

25 Q So, unlike a normal bank, they actually didn't even have



1 the cash sitting there, correct?

2 A Correct.

3 Q And you've actually been to that bank in Antigua, correct?

4 A Correct.

5 Q Were you at the new beautiful one that was built?

6 A Yes.

7 Q Sitting up on a hill with 80,000 square feet or whatever.

8 A Yeah, whatever.

9 **THE COURT:** Have you been there?

10 **MR. KUNIANSKY:** Yes.

11 Q Have you been there?

12 A Yeah, I've been there.

13 Q It's quite impressive looking building, isn't it?

14 A Yes, it is.

15 Q It seems to -- just from looking at it, exudes success,  
16 doesn't it?

17 A It does.

18 Q Matter of fact, there are all kinds of Stanford related  
19 entities all around the airport in Antigua, aren't there?

20 A The Stanfordland as it was called in the hallways, yes.

21 Q So, as soon as you get off an airplane, everything around  
22 there is these beautiful Stanford buildings, correct?

23 A Yes.

24 Q And every one of them, it all appears to exude wealth and  
25 success, correct?

1 A Yes.

2 Q Matter of fact, you were aware, were you not, that he was  
3 listed as the 205th wealthiest person in America. Is that  
4 right?

5 A By Forbes.

6 B By Forbes magazine, I believe.

7 A Yes.

8 Q And being in the investment industry, you read Forbes  
9 magazine, don't you?

10 A Yes.

11 Q And you were aware of that, correct?

12 A Correct.

13 Q And you didn't know any reason to disbelieve that at the  
14 time, did you?

15 A No.

16 Q Now, I don't know if you're -- let me point to this.  
17 There's something called 50-plus Stanford affiliated entities.  
18 Do you see that box?

19 A I do.

20 Q Are you aware that there were all kinds of different  
21 Stanford affiliated companies all over the globe?

22 A Yes.

23 Q And would you agree that the number is at least 50, if not  
24 well above 50?

25 A My understanding the number was north of 50.

1 Q Was what now?

2 A North of 50.

3 Q North of 50. Maybe even -- I've heard 150. Have you  
4 heard that?

5 A Yes.

6 Q Okay. Now, were you also familiar with an entity called  
7 SFGC, Stanford Financial Group Company, down on the bottom left  
8 hand corner?

9 A Yes.

10 Q Okay. And were you aware whether or not they provided  
11 certain administrative services to some of these other Stanford  
12 affiliated entities?

13 A It was my understanding it was just that -- administrative  
14 services.

15 Q Administrative services, okay. They didn't sell CDs.  
16 They didn't issue CDs. They didn't market the CDs. They  
17 provided administrative services, correct?

18 A Yes.

19 Q And were you aware -- and you may have left somewhere  
20 around then -- but that subsequently there was a -- let me ask  
21 you this. Were you aware of some global initiative in 2007 to  
22 transfer operations over to the U.S. Virgin Islands and St.  
23 Croix for tax reasons?

24 A Yes.

25 Q And had you heard of something called Economic Development

1 Corporation and ways that the Stanford Group of companies could  
2 save money by locating in St. Croix?

3 A Yes, I have.

4 Q And were you aware that there was another entity created  
5 to replace SFGC, which is Stanford Financial Group Global  
6 Management, which is on there as SFGGM?

7 A That one is new to me.

8 Q Okay. Now, were you aware that Mark Kuhrt worked for  
9 Stanford Financial Group Services, one of the companies that  
10 provided administrative services?

11 A I didn't know exactly what entity he worked for.

12 Q Okay. You didn't really know what he did?

13 A No.

14 Q Now --

15 **THE COURT:** Do you know -- and I don't want you to  
16 speculate -- but do you know one way or another how the annual  
17 reports were distributed? That's part one. Were they sent in  
18 hard copy or some other way? And number two, were they  
19 distributed to employees of the Stanford companies?

20 **THE WITNESS:** As far as distribution, they were  
21 brought in hard copy into the building.

22 **THE COURT:** Okay. Okay. And were they distributed  
23 to employees?

24 **THE WITNESS:** Yes.

25 **THE COURT:** In your world?

1           **THE WITNESS:** Yes. You mean financial advisors,  
2 their assistants? Yes, they were.

3           **THE COURT:** Okay. Were they widely distributed in  
4 your experience or not?

5           **THE WITNESS:** As far as I know, anybody who asked  
6 could get one.

7           **THE COURT:** Okay. But they didn't give out one to  
8 every employee in your financial --?

9           **THE WITNESS:** Mostly financial advisors, you know, it  
10 was my knowledge, unless the financial advisors requested them.  
11 So, any employee -- I mean, they were all over the building in  
12 plain sight.

13           **THE COURT:** Okay. Did you see them in other places  
14 within the company -- companies? Not just your own company,  
15 but any related companies? When you visited Antigua or Memphis  
16 or any of that, did you see annual reports lying around?

17           **THE WITNESS:** Yeah, I mean, I recall seeing them in  
18 other buildings, other entities, yes.

19           **THE COURT:** I see. Okay.

20 **BY MR. KUNIANSKY:**

21 Q Now, when you first came over to Stanford Financial Group  
22 -- or Stanford Group Company -- and became a financial advisor  
23 there, at some point pretty early on somebody acquainted you  
24 with this CD product, correct?

25 A I was acquainted with it prior to me joining.

1 Q Because what? There was word out in the financial  
2 industry of this product that's available through Stanford?

3 A No, it was Jay Comeaux offered the opportunity for me to  
4 go listen to a presentation being done for prospective clients  
5 at the building in Houston. So, I took him up and went to that  
6 presentation.

7 Q And when you went to this presentation, it sounded like a  
8 pretty darn good product, didn't it?

9 A Absolutely.

10 Q And a couple of reasons it sounded like a good product,  
11 one, they were able to offer a higher rate of return on the CDs  
12 than traditional banks in the United States were able to offer,  
13 correct?

14 A That and I would say because the presenters were two  
15 former Lehman bond people and they were fixed income, you know,  
16 specialists and they were the ones giving the presentation.

17 Q Okay. So, people that were highly respected in the field  
18 were giving a presentation on these instruments, correct?

19 A Yes.

20 Q And you relied and trusted those people, didn't you?

21 A Yes.

22 Q Matter of fact, you trusted them to the tune of -- I think  
23 you said you sold \$30 million worth of these things at some  
24 point, correct?

25 A That's the number, yes.

1 Q And I assume, like most financial advisors, you were  
2 meeting with friends and family and friends of friends and  
3 friends of family and people that you're close with, correct?

4 A That's correct.

5 Q That's how you get your business, isn't it?

6 A Yes.

7 Q And you're not going to put somebody that's a family  
8 member or one of your best friends or a friend of your best  
9 friend into a product unless you believe in that product,  
10 correct?

11 A Correct.

12 Q And you believed in these products, correct?

13 A For a time, yes.

14 Q Okay. And you felt pretty terrible when it turned out  
15 that you had sold \$30 million worth of this stuff to some of  
16 your best friends and family members and all of that, didn't  
17 you?

18 A Yes.

19 Q Felt like you had been duped, didn't you?

20 A Yes.

21 Q And you're pretty smart in the financial industry. You're  
22 not the easiest person to dupe on this kind of stuff, are you?

23 A I would think I wouldn't be easily duped.

24 Q Now, I want to talk about, if you know -- to the extent  
25 you know -- what happens after the -- you sell a CD, okay?

1 Let's take it one step at a time. You sell a CD. Somebody,  
2 you know, is writing a check out to buy a CD for \$100,000,  
3 let's say. Okay?

4 A Okay.

5 Q Now, that \$100,000 is going to end up in a correspondent  
6 bank of Stanford International Bank, Limited, correct?

7 A Yes.

8 Q Okay. And Stanford International Bank, Limited is going  
9 to issue a CD or a promise to pay to this person who purchased  
10 the CD, correct?

11 A Yes.

12 Q According to whatever the terms of that CD are.

13 A Right.

14 Q And then, this money is somehow going to leave this  
15 correspondent bank and it's going to get out to portfolio  
16 managers who are investing that money to be able to earn a  
17 higher rate of return than what they're paying the people on  
18 the CDs, correct?

19 A Yes.

20 Q And that's the whole theory behind it is you've got to  
21 make more money than you're paying out or it isn't going to  
22 work, correct?

23 A Correct.

24 Q And with respect to these portfolios, the management and  
25 the money and all that -- strike that.



1           With respect to this portfolio of investments that's  
2 managed by these people all over the world and apparently are  
3 allegedly overseen by people out of Memphis, you don't get to  
4 see that portfolio of investments, do you?

5     A     Absolutely not.

6     Q     Okay. And are there ever times when you asked to see that  
7 portfolio of investments?

8     A     Yes.

9     Q     And you were told that that was a secret proprietary type  
10 thing that couldn't be disclosed to you, correct?

11    A     Verbatim.

12    Q     Verbatim, okay. Well, matter of fact, did you ever hear  
13 of the term "secret family recipe"?

14    A     I never heard it put that way, but certainly proprietary.

15    Q     Okay. And this is -- by the way, in order to be an  
16 effective financial advisor, this is the type of information  
17 that you would want to have to be able to really appropriately  
18 advise your clients, isn't it?

19    A     Yes.

20    Q     But even though you didn't get that information, that  
21 didn't lead you to believe that this was a great big Ponzi  
22 scheme, did it?

23    A     Absolutely not.

24    Q     You trusted and believed that money was being invested as  
25 had been represented, correct?

1 A Yes.

2 Q Did you think it unusual that they would not provide this  
3 information to you?

4 A Well, the example that was given to us as we walk into  
5 Bank of America or Chase, you can ask them what they're  
6 investing in, you're not going to be told what that bank is  
7 doing with, you know, your dollars and how they're investing  
8 it. You wouldn't know who they're making loans to. So, that  
9 was the analogy that they gave us.

10 Q Well, I want to follow that analogy a little bit with  
11 respect to a traditional bank, you would know by reading their  
12 financial statement that whatever percentage of real estate  
13 loans they're making, correct? For example?

14 A Uh-huh.

15 Q Now they may not break it down to the 30,000 different  
16 people that got a home mortgage, but it would lump it all  
17 together into that loan category, correct?

18 A Right.

19 Q And you would know that, correct?

20 A Right.

21 Q Did you know that with respect to SIBL's portfolio of  
22 investments?

23 A Well, according to the annual report they had high level  
24 information on fixed income equities.

25 Q So, whatever information you had was just what the annual

1 report said, right?

2 A Yes.

3 Q But that only broke it down into like four or five  
4 categories of assets, didn't it?

5 A Correct.

6 Q And it wouldn't tell you anything, really, about how that  
7 money was really invested, would it?

8 A Correct.

9 Q You don't know what stocks, bonds, private equities,  
10 different currencies, et cetera, et cetera that money was  
11 invested in, did you?

12 A I did not know.

13 Q But that's information that you would want to know in  
14 order to be able to appropriately advise your clients on their  
15 investments, correct?

16 A Yes.

17 Q And as a result, that's the kind of information that you  
18 repeatedly sought to get, isn't it?

19 A Yes.

20 Q But you weren't given it.

21 A No.

22 Q And that didn't cause you to think that there was some  
23 kind of fraud or crime or Ponzi scheme or anything else, did  
24 it?

25 A Well, I mean, the information that we kept requesting

1 along with the Treasury Department information and, you know,  
2 eventually over time, yeah, I got concerned.

3 Q Okay. But even when you got concerned, you didn't know  
4 there was any kind of Ponzi scheme, correct?

5 A No, I did not.

6 Q Matter of fact, really, to this day, other than what you  
7 read in the newspapers and pleadings and all that, you don't  
8 know for a fact it was a Ponzi scheme, do you?

9 A That is correct.

10 Q And I think Mr. Lane asked you a question about them  
11 investing great big amounts in real estate. Do you know  
12 whether or not they invested some large amount in real estate?

13 A No, I do not. Only what I've read in the paper.

14 Q Did you read in the paper that the transaction never  
15 occurred, it never got booked, it never happened?

16 A No.

17 Q Do you know whether that's the case one way or the other?

18 A It's my understanding that the majority of the assets are  
19 missing and they're not where they allege them to be.

20 Q Okay.

21 A Where they are, I do not know.

22 Q You don't know and you don't know who does know, do you?

23 A That's correct.

24 Q Do you have any idea whether Mark Kuhrt knows where those  
25 assets are?

1 A I don't know what Mark Kuhrt knows.

2 Q Do you know whether he knows any more than what you know  
3 about where those assets are?

4 A I wouldn't have that knowledge, no.

5 Q By the way, this Top Producer's Club that you're talking  
6 about, I assume you got invited as a top producer; is that  
7 right?

8 A On a few occasions, yes.

9 Q And at the Top --

10 **THE COURT:** How long were you at the company?

11 **THE WITNESS:** I started in January 2004 and left in  
12 December of 2007.

13 **THE COURT:** So you were there a full three years,  
14 really -- four years.

15 **THE WITNESS:** Yeah.

16 **BY MR. KUNIANSKY:**

17 Q Was Doug Shaw also a top producer?

18 A Yes.

19 Q And for lack of a better word -- you can correct me if I'm  
20 wrong -- but these top producer meetings were kind of like a  
21 pep rally, weren't they?

22 A Yes.

23 Q And all the big dogs met at some nice place -- a resort or  
24 whatever, correct?

25 A Correct.

1 Q And probably at some nice hotel and planned events and all  
2 that, correct?

3 A Correct.

4 Q All that picked up by the company, correct?

5 A Correct.

6 Q And generally Mr. Stanford would speak at these, correct?

7 A Correct.

8 Q And he'd be very charismatic, wouldn't he?

9 A Yes.

10 Q And the company was great, the CDs were great, the world  
11 was great, correct?

12 A That's the basic message, yes.

13 Q Okay. And you believed that message, didn't you?

14 A Yes.

15 Q And those other people in attendance believed that  
16 message, didn't they?

17 A Yes.

18 Q During these meetings, did anyone ever get together and  
19 go, "That's just a bunch of BS. This is a great big Ponzi  
20 scheme"?

21 A No.

22 Q Did anyone get together and say, "How can we possibly  
23 offer these high rates of return on this completely safe  
24 investment?

25 A I mean, I was not party to it -- those meetings -- if they

1 took place. I don't know.

2 Q The ones that you were a party to, "This is great. We're  
3 making lots of money. Our clients are making lots of money.  
4 The world is great." Correct?

5 A For a period of time there, yes.

6 Q And as a matter of fact, there was an incentive given to  
7 folks like you to put people onto these CDs versus other types  
8 of investments such as stocks and bonds, correct?

9 A The compensation was different for the CDs than other  
10 financial instruments.

11 Q And by that, you mean you could make more money if you  
12 steered your clients into CDs than if you put them in other  
13 type of financial instruments by the way this was set up at the  
14 Stanford Company, correct?

15 A Yes.

16 Q And that didn't cause you to believe this was a fraud or a  
17 Ponzi scheme either, did it?

18 A No.

19 **MR. KUNIANSKY:** Pass the witness.

20 **MR. ZIMMERMANN:** I don't have any questions of this  
21 witness, Judge.

22 **CROSS EXAMINATION**

23 **BY MR. KENNEDY:**

24 Q How are you doing, Mr. Tidwell?

25 A Fine, thanks.

1 Q My name is Kirk Kennedy and I'm counsel for Allen  
2 Stanford. You know Allen Stanford, right?

3 A Yes.

4 Q But you've never spoken to Allen Stanford directly, have  
5 you?

6 A I have, yes.

7 Q You have? When have you spoken to him?

8 A The first meeting I spoke to him. I was introduced to him  
9 by Jay Comeaux. And a couple of other occasions when he was in  
10 the building in Houston, we chatted briefly.

11 Q And that's when you were first hired, right?

12 A The first meeting was when I was first hired. He came in  
13 and out of Houston, so there was an occasion where I ran into  
14 him and we said hi.

15 Q But in any event, it was a very brief meeting?

16 A Yes.

17 Q And before I get into my questions, I wanted to know, were  
18 you out in the hallway speaking to Dr. Conte?

19 A No. I'm not even sure who he is.

20 Q Did you have any conversations with any people out in the  
21 hallway before you were getting ready to testify?

22 A I chatted with Kelly.

23 Q And who's Kelly?

24 A The gentlemen that testified before me -- DeHay.

25 Q What did you talk to Kelly DeHay about?



1 A We just chatted on, you know, real estate. He's a  
2 realtor. We talked about, you know, the economy. And we were  
3 out there for quite a while, so we just chitchatted.

4 Q So, let me understand this. You were talking to another  
5 witness before you came in to testify?

6 A Yes.

7 **THE COURT:** Did you talk about the case?

8 **THE WITNESS:** I'm sure we touched on parts of it,  
9 yes.

10 **THE COURT:** Did you talk about the case before he had  
11 testified or after?

12 **THE WITNESS:** Before. It would have been before he  
13 testified.

14 **THE COURT:** Did you work with him or know him before  
15 today?

16 **THE WITNESS:** No. I've seen him on TV and in various  
17 meetings, but I don't know him. He was not my client.

18 **THE COURT:** Okay.

19 **BY MR. KENNEDY:**

20 Q Now, in total I think you did testify and tell us that the  
21 Stanford group of companies was a large group of companies,  
22 right?

23 A Yes.

24 Q And it could be over 100?

25 A I don't know if the Stanford group of companies is over

1 100. I think the number of entities -- I guess, yeah, in total  
2 I guess there could be over 100 all together.

3 A And isn't it reasonable that the chairman of the board of  
4 a group of companies that large is not going to be immersed in  
5 the details, the intimate details of every particular entity.  
6 Isn't that fair?

7 A Yes, it's fair.

8 Q Okay. And it wouldn't -- you didn't have any personal  
9 expectations after you met Allen Stanford that he would be  
10 involved in the intricate financial planning of all the  
11 subsidiaries and related affiliate companies in the Stanford  
12 Group?

13 A That's correct.

14 Q In fact, I would imagine that -- and wouldn't you agree  
15 with me -- that it would be difficult for the CEO of a large,  
16 multi-national company to be intricately involved in the  
17 details of a company of that size?

18 A Yes.

19 Q And micro management isn't one of the expectations that  
20 investors would have of their CEO. Wouldn't you agree with  
21 that?

22 A I would agree.

23 Q It's more like strategic planning, isn't it?

24 A Yes.

25 Q And a lot of delegation is required, isn't it?

1 A Yes.

2 Q And a company the size of Stanford Financial -- in fact,  
3 you can testify to this personally -- it had a lot of lawyers  
4 and accountants and financial professionals involved in the  
5 company, didn't it?

6 A Yes.

7 Q So, the company was surrounded by professional advisors in  
8 the field of accounting, finance and securities regulation.  
9 Isn't that true?

10 A Yes.

11 Q And you testified a little bit about the fact that  
12 Stanford Financial had a robust compliance program, didn't you?

13 A Yes.

14 Q Are you familiar with what -- you're familiar with FINRA,  
15 right?

16 A Yes.

17 Q And you have the series 7 securities license?

18 A Yes.

19 Q Tell the Court what FINRA is.

20 A FINRA is the new regulatory body that I guess replaced the  
21 NASD. I don't remember exactly what the acronym stands for. I  
22 apologize. But it's essentially the regulatory body that  
23 oversees broker dealers, clearing firms.

24 Q And FINRA is the regulatory body for want of a better  
25 description that regulated the brokerage arm of the Stanford

1 Financial group of companies, right?

2 A Yes.

3 Q And do you know what the Central Registry of CDRs are?

4 Have you ever heard that acronym?

5 A Yes.

6 Q Okay. Tell the Court what CDRs are.

7 **THE COURT:** CDRs?

8 **MR. KENNEDY:** Yes.

9 **THE WITNESS:** CDR is the registry where brokers have  
10 their license and their employment history; any customer  
11 complaints are logged into the CDR.

12 **BY MR. KENNEDY:**

13 Q In fact, the CDR is a central repository for all types of  
14 complaints against brokers, against investment advisors,  
15 against the company, against all aspects of an organization  
16 like Stanford Financial that deals in publicly traded  
17 securities. Isn't that true?

18 A Yes.

19 Q Now, did you ever have any occasion when you were with the  
20 Stanford Group Company to perform a broker check or what they  
21 call a FINRA broker check with them?

22 A On who?

23 Q Just generally, with respect to any complaints or  
24 violations of the company.

25 A Oh, of Stanford?

1 Q Right.

2 A Yeah, it was my way, normal or common, for me to do a  
3 broker check on your own employer.

4 Q Would it surprise you if I told you that prior to the SEC  
5 appointment of a receiver, ex parte appointment of a receiver  
6 in 2009, that according to FINRA, Stanford Financial Group only  
7 had three -- three -- compliance issues that were reported to  
8 FINRA through the CDR?

9 MR. LANE: Objection, relevance.

10 MR. KENNEDY: Your Honor, the relevance is --

11 THE COURT: Sustained -- I mean, overruled. Let's  
12 just move on. It's really not very relevant.

13 MR. KENNEDY: Your Honor, I would submit that the  
14 relevance --

15 THE COURT: Is he aware? Yes or no?

16 THE WITNESS: Yes, I'm aware.

17 THE COURT: All right. Move on.

18 BY MR. KENNEDY:

19 Q Could you tell the Court a little bit about the compliance  
20 program at the Stanford group of companies with respect to  
21 securities --?

22 THE COURT: What does this compliance program cover?  
23 Let's get down to the more basic level.

24 THE WITNESS: Well, compliance in a broker dealer is,  
25 you know, they are kind of -- because it's a self-regulatory

1 industry -- they make sure that the financial advisors are  
2 adhering to, you know, all the rules and regulations, be it,  
3 you know, communication with the public, sales practices,  
4 suitability for products. I mean, that's their role is to make  
5 sure that the advisors, the brokers, are adhering to those  
6 rules and regs.

7 **BY MR. KENNEDY:**

8 Q And there were very few customer arbitration cases and  
9 complaints reported to FINRA with respect to Stanford. Isn't  
10 that true?

11 A As far as I'm aware that's true.

12 Q Prior to the SEC raid in 2000 --

13 I wanted to ask you a little bit. You testified  
14 about the 2007 annual report. I think your testimony -- and  
15 you can correct me if I'm wrong -- is that Allen Stanford  
16 "actively participated in the drafting of 2000 annual report."  
17 Did you testify to that?

18 A I believe that's what I said, yes.

19 Q Now, did Allen Stanford ever tell you that he drafted the  
20 2000 annual report or actively participated in it?

21 A No, he did not.

22 Q Did you ever see Allen Stanford working on the 2000 annual  
23 report?

24 A I didn't witness it, no.

25 Q So, really, you have no personal knowledge that Allen

1 Stanford drafted or participated in any information with  
2 respect to that report.

3 A My personal knowledge is based on the people in Stanford  
4 Communication who were putting that report together. When we  
5 needed them and it was during that time, that's what they would  
6 tell us. They didn't have time for us, they were working on  
7 the annual report.

8 Q So, the statement you made regarding Allen Stanford's  
9 involvement was coming second hand from somebody that told you  
10 something.

11 A That is correct.

12 Q So, my question again is, you have no personal knowledge  
13 that he participated actively, as you testified, in the  
14 contents of that report?

15 A That's correct.

16 **THE COURT:** Is Stanford Communications -- what is  
17 that?

18 **THE WITNESS:** That was the internal division that  
19 dealt with the annual report, marketing material, brochures.

20 **THE COURT:** Okay. Well, what company was it in, if  
21 you know?

22 **THE WITNESS:** I don't know exactly who they rolled up  
23 to. They may have been their own entity.

24 **THE COURT:** Okay. So, they produced the report?

25 **THE WITNESS:** They -- I mean, it was their -- they

1 had writers. They produced -- if Stanford did a commercial, if  
2 they had anything written that was going out to the public,  
3 they would produce it.

4 **THE COURT:** Oh, advertising.

5 **THE WITNESS:** Advertising and PR.

6 **THE COURT:** I see. Okay. So, you'd call them and  
7 say, "I need something," or what?

8 **THE WITNESS:** Well, I mean, in my management role, I  
9 was working with Jay Comeaux on the branding initiative in the  
10 Houston office, so there was various different things going out  
11 to Houston Business Journal; we met with the Chronicle; and so,  
12 there was marketing pieces that were being produced for every  
13 advisor in the office that was being run in the Houston  
14 Business Journal. And so, I had reasons to be talking to them  
15 and during that time when the annual report was being drafted  
16 and then done, that was, you know, nothing else would be worked  
17 on.

18 **BY MR. KENNEDY:**

19 Q And that communication division, where was that  
20 headquartered?

21 A It was in -- I think initially 5050 Westheimer, then they  
22 moved over to 5051.

23 Q And that's in Houston?

24 A That was in Houston. I think maybe later they may have  
25 rolled up to Memphis.



1 Q Now, you attended a meeting with Laura Pendergest-Holt and  
2 James Davis in Memphis, didn't you?

3 A Yeah, Mr. Davis was not there for the majority of the  
4 meeting. I think he said hi. It was mainly Laura's meeting.

5 Q What was your understanding of what role Laura Pendergest-  
6 Holt performed?

7 A It was -- she was chief investment officer, so it was my  
8 understanding that she had oversight of the investment  
9 portfolio.

10 Q Did you learn that at the meeting in Memphis?

11 A I mean, that was kind of common knowledge. I learned that  
12 initially from Jay Comeaux and then Jason Green and then from  
13 her, as well.

14 Q On up the chain of command?

15 A Right.

16 Q And what role did you understand Allen Stanford to have?

17 A In what matter?

18 Q With respect to investment decisions -- investment  
19 strategy decisions.

20 A He was on the board of the bank and so I think he was  
21 privy to the direction the board was going, the underlying  
22 portfolio. I mean, he was on the board so I assumed that he  
23 had knowledge of what was going on at the bank.

24 Q Right. So, you assumed that he had knowledge of the  
25 specific investment decisions, but again you have no personal

1 knowledge as to Allen Stanford's exact role and the function  
2 that he played in the investment strategy with respect to the  
3 tier 3 investments or any of the investments for that matter.  
4 Isn't that true?

5 A That is true.

6 Q Do you know what an accredited investor is, right?

7 A Correct, yes.

8 Q And did you sell your -- when you were promoting and  
9 selling the CDs, were you selling the CDs primarily to  
10 accredited investors?

11 A Exclusively.

12 Q So, there were no CDs that were sold to what we call non-  
13 accredited investors?

14 A I can't say there was no CDs sold to non-accredited  
15 investors, but I can tell you I didn't sell to non-accredited  
16 investors. I don't know if there was people that were non-  
17 accredited that owned the CD. I wouldn't have that knowledge.

18 Q And what is an accredited investor?

19 A The rules have just recently changed, but at the time that  
20 I was there it's essentially a person who has a net worth of a  
21 million dollars, which back then was inclusive of your primary  
22 residents. That's been since changed. You had to have income  
23 -- if you were single, it'd be \$200,000; if you were married  
24 and filed jointly, it'd be \$300,000, with the expectation of  
25 the same income going forward.

1 Q And to paraphrase, isn't it fair to say that accredited  
2 investors are -- these are experienced investors, sophisticated  
3 people that have, you know, not novices to the securities  
4 market?

5 A Unfortunately, I don't think that's what it says. I think  
6 if you just meet those hurdles then you are accredited. So, I  
7 don't necessarily think that everybody who meets those hurdles  
8 fits that definition.

9 THE COURT: So, to be accredited, what years are you  
10 talking about here with the one million including your house?

11 THE WITNESS: That was the whole time I was there, so  
12 it was January 2004 through December 2007.

13 THE COURT: So, to be accredited, all you needed was  
14 -- that's not nothing or anything -- but it's not considered a  
15 super high net worth person or anything.

16 THE WITNESS: No, right. No, that's why I think they  
17 -- I think they've excluded now the primary residents in the  
18 new regs.

19 THE COURT: And that was equity, of course, in the  
20 home based on whatever the appraised value was?

21 THE WITNESS: Right. The net, right, just the value.

22 BY MR. KENNEDY:

23 Q Isn't it true that SEC regs there's also a criteria for  
24 accredited investors that also includes a person check the box  
25 if they have a level of sophistication with respect to

1 investment -- investing and securities issues?

2 A I don't think they can get around the income or the net  
3 worth requirement based on sophistication; not to my knowledge.  
4 You can't just check a box and say you're sophisticated and be  
5 accredited.

6 **THE COURT:** In your books they couldn't, anyway.

7 **THE WITNESS:** Right.

8 **BY MR. KENNEDY:**

9 Q But you're not sure that the SEC regulations -- that  
10 that's what they are?

11 A The rules that I've read on accredited investors don't  
12 have that requirement or option, I should say.

13 Q Now, when you were selling the CDs you were working with  
14 the broker dealer side of the house, so to speak, right?

15 A SGC, yes.

16 Q Right, SGC. And do you know what the total amount in  
17 billions of dollars that SGC had managed or advised when you  
18 were working at the company?

19 A Well, SGC, I think the way it was stated was under  
20 management or advisement. I believe that number was, you know,  
21 \$30 billion. It was a large number.

22 Q It was a very large number. In fact, SGC managed a  
23 significant amount of investments and in capital, did it not?

24 A Yes.

25 Q And it would be the equivalent of its counterpart would be

1 something like a Charles Schwab or a Merrill Lynch or something  
2 to that --?

3 A I don't think it was quite the Merrill Lynch level, but  
4 possibly Schwab. I haven't seen their numbers in a while.

5 Q But in terms of the types of investment and the services  
6 they performed for their investors?

7 A Yes. Yes. Same services.

8 Q And the broker dealer side of the house, in managing those  
9 investments, the purpose of that entity was to return a profit  
10 to the Stanford group of companies, was it not?

11 A Yes.

12 Q And did anyone ever speak to you about the value of the  
13 brokerage firm, the going concern value to the overall Stanford  
14 enterprise?

15 A I had, you know, a few conversations with Jay Comeaux as  
16 to, you know, the financial strength of the broker dealer and  
17 it was my understanding the broker dealer was not in the black.  
18 They were not making money.

19 Q But it did have going concern value, did it not?

20 A I mean, as far as enterprise value, I would say yes, it  
21 did have a value.

22 **THE COURT:** In other words, they had cash flow  
23 problems or they spent more than they -- their revenues?

24 **THE WITNESS:** Right. And based on the growth model  
25 and the acquisitions that they were undertaking with new

1 advisors, they were not -- the SGC was not making money, but  
2 did they have value? Yes, I'm sure they had value.

3 **BY MR. KENNEDY:**

4 Q As part of the SGC function, did it also engage in private  
5 wealth management?

6 A Yes.

7 Q Provide those services?

8 A Yes.

9 Q Do you know what percentage of cash reserves an FDIC  
10 regulated bank would have in its reserves?

11 **MR. LANE:** Objection, relevance, your Honor.

12 **MR. KENNEDY:** Your Honor, this goes to the --

13 **THE COURT:** I think it's beyond his competence. I'll  
14 let you ask that question, but --

15 **BY MR. KENNEDY:**

16 Q If he knows.

17 A I don't know that answer.

18 Q Would it surprise you --?

19 **THE COURT:** No, no. Not if it's on that same line.

20 **MR. KENNEDY:** I'm moving on.

21 **THE COURT:** I've been on the bench long enough to  
22 know, at least suspect, what might be coming.

23 **MR. KENNEDY:** You know that trick?

24 **THE COURT:** Yeah. So, anyway, just change topics.  
25 You're fine.

1 **BY MR. KENNEDY:**

2 Q How many offices did Stanford on the broker dealer side  
3 have across the globe?

4 A Well, obviously, I was not there when they shut down,  
5 but --

6 Q When you left.

7 A I'm going to say 12 to 14 offices. I think it was in that  
8 neighborhood.

9 Q In several countries, right?

10 A Well, not -- I'm only talking about SGC, which is the  
11 United States.

12 Q But I'm talking about in the Stanford group of companies,  
13 Stanford had a presence, an international presence, in many  
14 countries, did it not?

15 A That's correct.

16 **THE COURT:** But not selling the securities?

17 **THE WITNESS:** Well, SGC was the broker dealer arm,  
18 which was in the United States, so maybe I'm unclear what he's  
19 asking.

20 **THE COURT:** But you've answered 12 to 14 is the  
21 United States --?

22 **THE WITNESS:** Broker dealer --

23 **THE COURT:** -- number of offices.

24 **THE WITNESS:** Yeah, number of broker dealer offices,  
25 yes.

1 **BY MR. KENNEDY:**

2 Q Now, you left Stanford Financial Group in December of  
3 2007, right?

4 A Yes.

5 Q And did you take your clients with you when you started  
6 your new firm?

7 A Well, I mean, you ask clients to come with you and they  
8 make that decision.

9 Q And they went with you?

10 A Yes, most of my clients, but not all.

11 Q And you started a new firm called Zenith Wealth Management  
12 in October of 2007, did you not?

13 A We registered the name in October 2007, yes.

14 Q All right.

15 **THE COURT:** Did you -- well, did your clients wind up  
16 selling the CDs that they had?

17 **THE WITNESS:** Yes. I unsold the CD as I would like  
18 to say it. I presented the information that I had. I  
19 presented my concerns and, you know, it was their decision to  
20 stay in or to get out, but at least I told them what I knew and  
21 what my concerns were and then they made that decision.

22 **THE COURT:** And did most of them, in fact, sell?

23 **THE WITNESS:** They did.

24 //

25 //



1 **BY MR. KENNEDY:**

2 Q Did all of your clients receive their investments back  
3 from Stanford?

4 **THE COURT:** Sell might be wrong. It's really  
5 redeemed, right.

6 **THE WITNESS:** Redeemed is the better way of putting  
7 it, yes.

8 **THE COURT:** Okay. My mistake. Go ahead.

9 **BY MR. KENNEDY:**

10 Q You had some clients that were in the CDs, but you also  
11 had other clients that were in market and securities, did you  
12 not?

13 A Some in both.

14 Q Okay. And did all of your clients in the CDs that  
15 redeemed their CDs, were they all paid?

16 A Not all, but most, because some stayed. Some didn't  
17 redeem.

18 Q Right. But I'm talking about before the SEC raid in 2009,  
19 all of your clients who redeemed their CDs were paid, were they  
20 not?

21 A Yes.

22 Q Now, you're experienced in the securities field, right?  
23 You hold those series 7 securities license?

24 A Yes.

25 Q And you're familiar about the investment -- at some level

1 about the investment portfolio of Stanford Financial Group, and  
2 my question to you is, did Stanford Financial have any  
3 investments, to your knowledge, in sub-prime debt?

4 **THE COURT:** Can I ask a question? Would you lay a  
5 foundation here, because I think you're assuming something that  
6 I don't recall and I'd like to get a little bit of foundation  
7 before he answers the ultimate question.

8 **BY MR. KENNEDY:**

9 Q Sure.

10 You marketed different products to your clients, did  
11 you not?

12 A Yes.

13 Q And in the securities markets there's different industry  
14 sectors: telecommunications, aircraft, real estate,  
15 securitizations for mortgages, things like that. You're  
16 familiar with the different industry sectors that you can put  
17 your clients into, right?

18 A Yes.

19 Q Okay. So, my question to you is, do you know if Stanford  
20 Financial Group had any investments in what we'll call the sub  
21 prime real estate market?

22 A Can I just be clear. You're saying Stanford Financial  
23 Group. Is that -- you mean --?

24 Q I'm talking about the bank.

25 A Okay.

1                   **THE COURT:** What was the trade name? You want  
2 Stanford --?

3 **BY MR. KENNEDY:**

4 Q Stanford International Bank. Forgive me, I'll rephrase  
5 the question.

6 A Okay. I just wasn't sure.

7 Q Do you know if Stanford International Bank had any of its  
8 investments -- if anyone told you or if you have any personal  
9 knowledge -- had any of its investments in the sub prime  
10 market?

11 A Was it my understanding that they did not.

12 Q Did you know that the sub prime market was a causal factor  
13 in the collapse of some major financial institutions? Isn't  
14 that true?

15                   **MR. LANE:** Objection, your Honor, relevance and  
16 argumentative.

17                   **THE COURT:** I'll let him answer this, given his scope  
18 of investment advice.

19                   **THE WITNESS:** I'm sorry. Repeat the question?

20 **BY MR. KENNEDY:**

21 Q Is it fair to say that the sub prime real estate market  
22 was a causal factor in the collapse of some major financial  
23 institutions -- Bear Stearns, Lehman -- we can go down the  
24 list?

25 A Yeah, it's very fair to say that.

1           **THE COURT:** I couldn't hear the answer.

2           **THE WITNESS:** It's yes. I'm sorry.

3 **BY MR. KENNEDY:**

4 Q     Now, you were with Merrill Lynch before you came over to  
5 Stanford, right?

6 A     Yes.

7 Q     And how long were you with Merrill Lynch?

8 A     I started with Merrill in March of '95 and left in, you  
9 know, January 2004.

10 Q    One of the questions that I've got for you was, you went  
11 to this meeting in Memphis and were told by Laura Pendergest-  
12 Holt and some others that the investment strategy and the  
13 investment profile of the Stanford assets was a secret, right?

14 A    The underlying holdings, their positions, were not known.

15 Q    So, is it fair to say then that you really had no personal  
16 knowledge in terms of viewing underlying transactional  
17 documents as to the investment positions of Stanford Financial?

18 A    I've no personal knowledge of specific positions.

19 Q    And I'm talking about the bank -- Stanford International  
20 Bank.

21 A    No personal knowledge as to specific positions of Stanford  
22 International Bank.

23 Q    And I think you testified when Mr. Kuniansky was asking  
24 some questions about your personal knowledge that the only  
25 thing you really know is what you've heard in the media or in

1 the public sphere. Is that fair? And people that you've

2 spoken to since the SEC --

3 A In relation to the bank's portfolio?

4 Q Yes.

5 A Okay. Yeah, that's -- the only thing I really know

6 specifically is what I've read in the media.

7 Q Now, you came on to Stanford Financial and you signed a

8 contract, did you not?

9 A Yes.

10 Q And it's common, is it not, that when broker dealer firms

11 or brokerage firms, they want to recruit high producers, people

12 that have the potential to bring in clients and generate

13 revenue for the company, right?

14 A Yes.

15 Q And you, obviously, were one of those and they brought you

16 on, right?

17 A Yes.

18 Q And part of your compensation arrangement was that the

19 company -- you signed some promissory notes and the company

20 advanced you some money, right?

21 A Yes.

22 Q How much money did the company advance you in 2004 in

23 January when you came on?

24 A I believe the number was around \$200,000. Can I clarify

25 what that \$200,000 was for?

1           **THE COURT:** Yes.

2           **THE WITNESS:** The \$200,000 was essentially my  
3 deferred compensation that I gave up when I left Merrill Lynch.

4           **THE COURT:** Was it a loan? He's asked if it was a  
5 note.

6           **THE WITNESS:** Yeah, there was a note, but it was a  
7 note based on what I'd given up. It wasn't just a note based  
8 on me promising to do something. It was a note based on a  
9 verifiable, you know, income and assets that I was leaving  
10 behind at Merrill because it wasn't transferable.

11           **THE COURT:** Okay, fine. But were you going to owe  
12 the \$200,000 back?

13           **THE WITNESS:** Yes. To Stanford, yes. When I signed  
14 that note, they advanced me the money. Then, yes, I would owe  
15 Stanford that money.

16           **THE COURT:** So, what's the big deal? What was the  
17 benefit to you?

18           **THE WITNESS:** Well, I mean, yeah, exactly.  
19 Economically, it was basically a wash.

20           **THE COURT:** Did you pay interest?

21           **THE WITNESS:** It's federal nominal interest that you  
22 have to pay. It's really you do that because when I left, I  
23 mean, the industry changed. When I left, it was basically I  
24 was just being, you know, made whole. It was the opportunity  
25 possibly to earn more money at Stanford because of the unique

1 capability that they had.

2 **THE COURT:** Okay.

3 **BY MR. KENNEDY:**

4 Q It was my understanding that there were several promissory  
5 notes. There was a \$40,000 note and then a \$200,000 note.

6 A Yeah. There was -- so, the \$200,000 makes me whole from  
7 what I'm giving up. The other notes were based on certain, you  
8 know, performance hurdles that they put into the contract.

9 Q It was a sign-on bonus. A portion of it was a sign-on  
10 bonus.

11 A Yes. Yes.

12 **THE COURT:** So, you got a \$40,000 sign-on bonus,  
13 which was again a loan to you?

14 **THE WITNESS:** The \$40,000 didn't come at the same  
15 time as the 200. There was some time -- I don't know exactly  
16 what the time frame lapse was, but there was a hurdle. I had  
17 to meet a certain performance and I got that money.

18 **THE COURT:** And then you got it forgiven?

19 **THE WITNESS:** Yeah, and it's forgiven over a period  
20 of time. It amortizes away. It's not a very good system in  
21 the industry, but it is what it is.

22 **THE COURT:** Okay. But the point is that you owe them  
23 a certain amount of money. Did they give you the cash?

24 **THE WITNESS:** Yeah, they give you the cash and then  
25 if you're there it amortizes, so the longer you're there

1 eventually at some point it goes away.

2 **THE COURT:** Okay. Sorry for the interruption.

3 **BY MR. KENNEDY:**

4 Q So, over a period of time, the loans are eventually  
5 forgiven. The longer you stay there under the idea that  
6 eventually you'll be productive and generate money for the  
7 company and, therefore, it's a win win scenario for both you  
8 and the company, right?

9 A Right. Right.

10 Q But we do know that in October of 2007, while you were  
11 still at the company, you formed and started a new company  
12 called Zenith Wealth Management, right?

13 A I registered the name, correct.

14 Q Did you tell anyone at Stanford Financial in October of  
15 2007 that you were registering a name and starting a new  
16 company?

17 A Under legal advice, I was told I didn't need to.

18 **THE COURT:** Had you opened your doors?

19 **THE WITNESS:** Absolutely not.

20 **THE COURT:** Doing any business under that name?

21 **THE WITNESS:** No.

22 **THE COURT:** Just registered it?

23 **THE WITNESS:** Yes. No capital, no -- didn't use the  
24 name.

25 //



1 **BY MR. KENNEDY:**

2 Q Did you talk to any clients and tell them you were opening  
3 up a new business?

4 A Well, part of the conversation with talking with your  
5 clients about the problems I had with the CD and some other  
6 issues, I did tell them, yes, I was contemplating, you know,  
7 opening up my own company. I didn't give them any details and  
8 I didn't have any details.

9 Q And then, in December of 2007 -- December 12th, in fact --  
10 you had a conversation with Jay Comeaux, the person that  
11 brought you in, right?

12 A That's correct.

13 Q And that's when you had this conversation about you  
14 wanting to leave, right?

15 A Yes.

16 Q And did you tell him at the time that you'd opened up the  
17 new business?

18 A No. He didn't ask. He asked me where I thought I was  
19 going. I gave him the name of the entity that I'd talked to,  
20 but I had no contract, in other words, no details worked out.  
21 Essentially I was not prepared to go anywhere.

22 Q At that time, in October and December, when you met with  
23 Comeaux, when you opened up the new business, at that time you  
24 owed some money. It was residual debt that you owed to  
25 Stanford Financial.

1 A That is correct.

2 Q How much did you owe?

3 A I believe the number was \$150,000; somewhere in that  
4 neighborhood.

5 Q Did you ever tell anyone at Stanford Financial Group that  
6 you expected the company to forgive that loan?

7 A I may have mentioned that. I don't know. I can't recall  
8 if I had that conversation with anybody.

9 **THE COURT:** We need to move along, please.

10 Q Isn't it true that on December 17th, Stanford Financial  
11 sent you a demand letter asking you to repay the loan?

12 A I believe it was on or about that date, yes.

13 Q And you ended up in litigation with Stanford Financial in  
14 a federal proceeding, right?

15 A Yes.

16 Q In fact, they sued you to recover that money, right?

17 A We sued them and they sued us.

18 Q And what was the result, as you know, with FINRA, the  
19 successor to the NASD, there's an arbitration process, right?

20 A There's an arbitration process pending.

21 Q What was the outcome of the arbitration process?

22 A It's been stayed.

23 **THE COURT:** What did you sue them over?

24 **THE WITNESS:** Well, we sued Stanford over the fact  
25 that they were committing, you know, which is not anything

1 relevant to this proceeding, there was a lot of issues that we  
2 had with the company that I didn't want to be a part of. I  
3 mean, the disclosure form, if you read it, there is no statute  
4 of limitations and there can be a fine up to 50 percent of the  
5 value of the account. And I brought that up on numerous  
6 occasions and I was very concerned that my clients would be in  
7 trouble and then, of course, I would be, too. And every time  
8 we asked Stanford about this matter, we were told it was a non  
9 event, don't worry about it and move on.

10 **THE COURT:** You mean -- what matter were you  
11 referring to there?

12 **THE WITNESS:** The disclosure form.

13 **THE COURT:** The --

14 **THE WITNESS:** The disclosure form that you must file  
15 if you have assets outside of the jurisdiction --

16 **THE COURT:** Oh, the \$10,000 business.

17 **THE WITNESS:** It wasn't \$10,000. If you have a half  
18 million dollar account and you haven't disclosed that, the fine  
19 could be \$250,000.

20 **THE COURT:** Oh, okay. I understand then. Okay. And  
21 then, Stanford counter claimed for the unpaid \$200,000 or  
22 whatever number it was.

23 **THE WITNESS:** Right. I didn't want to be a part of  
24 illegal activity or any of that. There was a lot of other  
25 issues that we brought up to management that we did not get

1 satisfactory answers on and so, that's when I told Mr. Comeaux  
2 I didn't want to be there anymore.

3 **BY MR. KENNEDY:**

4 Q Who initiated the FINRA proceeding?

5 A Stanford -- yeah, against me.

6 Q They issued a demand letter and then they filed suit  
7 against you and then you counter claimed and raised all these  
8 issues about regulatory problems that you had?

9 A Well, we tried to settle with them --

10 **THE COURT:** You know what? We don't want to drag  
11 this out. It's not that important, frankly.

12 **THE WITNESS:** Okay. We tried to settle.

13 **THE COURT:** He's just trying to establish that  
14 Stanford sued you first. So, fine. Let's go. Next?

15 **MR. KENNEDY:** No further questions.

16 **THE COURT:** Okay.

17 **MR. LANE:** Your Honor, I just have a couple of  
18 follow-ups.

19 **REDIRECT EXAMINATION**

20 **BY MR. LANE:**

21 Q You were asked about, if you recall, whether you knew  
22 about the proprietary assets held by Stanford Financial, the  
23 bank -- Stanford International Bank, Limited. Do you recall  
24 those questions?

25 A Uh-huh. Yes.

1 Q I think both attorneys questioned on that. I think you  
2 were asked one time about the secret recipe, whether it was  
3 called the secret recipe or something like that.

4 A And I'd never had it been told to me in those terms.

5 Q Well, you had looked -- we discussed the Stanford  
6 Financial or the Stanford International Bank report for 2006,  
7 which came out in 2007. Do you recall that? That's number 36?

8 A Yes.

9 Q Let's say you didn't know the entire ingredients, or the  
10 entire secret recipe, but you knew one ingredient of the \$5.3  
11 billion stated amount of assets for Stanford bank was a \$1.5  
12 billion debt owed -- unsecured debt -- owed by Allen Stanford  
13 to Stanford International Bank, Limited; would just that one --  
14 just knowing that one investment you would know that this  
15 entire annual report was false, wouldn't you?

16 MR. KENNEDY: Objection, your Honor, calls for  
17 speculation.

18 THE COURT: Well -- no. Overruled. My problem with  
19 the question is it's too long and it's leading.

20 MR. LANE: Okay.

21 THE COURT: So, you may ask something shorter.

22 BY MR. LANE:

23 Q Okay.

24 You were asked if you knew all of the proprietary  
25 assets of Stanford International Bank. Do you recall that?

1 A Yes.

2 Q And I think your testimony was you were told it was  
3 proprietary.

4 A Yes.

5 Q Had you known that \$1.5 billion of Stanford bank's assets  
6 consisted of an unsecured personal loan from Allen Stanford,  
7 what would that lead you to believe as to the truth or falsity  
8 of the annual report that's been marked as Exhibit 36?

9 MR. KENNEDY: Objection, your Honor. Assumes facts  
10 not in evidence.

11 THE COURT: Overruled. It's hypothetical.

12 THE WITNESS: My response to that is I would have  
13 concern. I don't know if I would -- that it would lead me to  
14 believe that the document was false or not, but if I saw that  
15 as an asset of the bank, I would have concern.

16 MR. LANE: Your Honor, I have no further questions of  
17 this witness.

18 THE COURT: Anybody else? Mr. Kuniansky?

19 MR. KUNIANSKY: No, your Honor.

20 THE COURT: Mr. Zimmermann?

21 MR. ZIMMERMANN: No, your Honor.

22 THE COURT: Mr. Kennedy?

23 MR. KENNEDY: No, your Honor.

24 THE COURT: Okay. Thank you, sir. You are excused.

25 (Witness excused at 6:11 p.m.)

1           Okay. I told you we could get out of here at 6:00  
2 o'clock. We're a few minutes late. I'm happy to go a little  
3 longer or I'm happy to quit. It's up to you.

4           **MR. LANE:** Your Honor, I would start with a new  
5 witness, so I would ask that we quit now.

6           I would ask one question.

7           **THE COURT:** Okay.

8           **MR. LANE:** Assuming that we go through our witnesses  
9 tomorrow and we get done by mid afternoon, given the length of  
10 the openings, I would ask that if we're completely done with  
11 testimony and all the discussions of exhibits and everything,  
12 can we do the closing Thursday morning rather than start it in  
13 the middle of the afternoon?

14          **THE COURT:** Yes, that's no problem. But you're not  
15 the only ones with witnesses.

16          **MR. LANE:** Oh, we're not, your Honor. I do believe  
17 there are a couple more witnesses after us.

18          **THE COURT:** Okay. How many more witnesses are you  
19 planning to offer?

20          **MR. LANE:** Three, your Honor.

21          **THE COURT:** Okay.

22          Are you going to have witnesses? Do you know?

23          **MR. KUNIANSKY:** I do not believe so, your Honor. I'm  
24 going to be playing a ten-minute tape. I do have a question,  
25 though, about Mr. Westheimer that probably needs to be

1 addressed and that's the --

2 **THE COURT:** And he's your witness?

3 **MR. KUNIANSKY:** Well, I understand he's going to be  
4 called as their fact witness first.

5 **THE COURT:** Right.

6 **MR. KUNIANSKY:** And I'm assuming that's just limited  
7 to what was said. And then, later we call him as an expert.

8 **THE COURT:** You may recall --

9 **MR. KUNIANSKY:** But he's not going to be an expert in  
10 the first part of it.

11 **THE COURT:** Right. He can put factual matters on and  
12 then you can recall him, yes. You don't think you're going to  
13 have any other witnesses besides Westheimer, though? I don't  
14 know whose witness he is.

15 **MR. KUNIANSKY:** Correct, your Honor. I'm not sure  
16 we've even decided between us who, but yes.

17 **THE COURT:** Okay. Do you have any fact witnesses  
18 you're planning to call?

19 **MR. ZIMMERMANN:** Well, we didn't think he was a fact  
20 witness, but apparently he's been turned into one.

21 **THE COURT:** Well, Westheimer we've already discussed.

22 **MR. ZIMMERMANN:** That's it.

23 **THE COURT:** Okay.

24 **MR. BENNETT:** Your Honor, we have probably two  
25 witnesses, one fact, one expert and maybe one rebuttal. Could



1 we find out who they're going to call tomorrow, though, just to  
2 find out for our timing, how long we're going to take?

3 **THE COURT:** Okay. What do you mean by rebuttal?

4 **MR. BENNETT:** Well, we talked about Dr. Lare  
5 (phonetic).

6 **THE COURT:** Yeah, but I don't consider him a  
7 rebuttal. I consider him part of your case. Okay. Because  
8 rebuttal would mean you do it after any rebuttal that the  
9 plaintiff -- well, the underwriters, have. So, I'm figuring if  
10 we do anything with Lare, it will be while you're calling your  
11 witnesses, generally, okay?

12 **MR. BENNETT:** Fine, your Honor.

13 **THE COURT:** Just terminology. I want to be sure  
14 we're on the same page.

15 **MR. LANE:** Your Honor, I hope my colleagues will  
16 correct me if I'm wrong, but I believe we're down to the last  
17 three, which would be Mr. Westheimer --

18 **THE COURT:** Karen Booth (phonetic).

19 **MR. LANE:** Karen Booth and Paul Sewell, briefly  
20 unless we can come to an agreement on some kind of stipulation.

21 **THE COURT:** Oh, okay.

22 **MR. LANE:** So, it may be two.

23 **THE COURT:** Time limits are going to be a problem,  
24 after all.

25 **MR. LANE:** I don't believe so, your Honor. That's

1 why I wondered if we get everything done within the time frame  
2 --

3 **THE COURT:** It's no problem to do closings tomorrow -  
4 - I mean, Thursday. But I'm -- you know, I'll be curious to  
5 know if we finish as you expect. I had planned to sit late  
6 tomorrow if we need to.

7 **MR. ZIMMERMANN:** Just to clarify. The witness list  
8 that you provided had a Charles Rawl (phonetic) on it. You can  
9 take him off?

10 **MR. LANE:** No, we're not going to call Mr. Rawl.

11 **MR. ZIMMERMANN:** Thank you.

12 **THE COURT:** Okay. I think that the plaintiffs have  
13 indicated that they wanted the right to call witnesses that the  
14 underwriters had listed if the underwriters don't call them.  
15 And you may do that, but you need to plan ahead. That's one of  
16 the reasons I'm asking Mr. Lane to educate us.

17 **MR. LANE:** I think Mr. Rawl may be the only one who  
18 we were going to call, but I --

19 **THE COURT:** Who had Mr. Compton? Who's Mr. Compton?

20 **MR. LANE:** He was an expert who was designated by  
21 Ms. Holt.

22 **THE COURT:** Okay.

23 **MR. LANE:** He will not be testifying, as far as I can  
24 tell.

25 **THE COURT:** He will not. Okay. Anything else?

1           **MR. BENNETT:** Just one minor thing, your Honor.  
2           Would it be all right for Mr. Stanford to bring a sweatshirt  
3           over because of the coldness in --?

4           **THE COURT:** Yes.

5           **MR. BENNETT:** Is that through you, not the U.S.  
6           Marshals --

7           **THE COURT:** You can bring him one.

8           **MR. BENNETT:** Okay.

9           **THE COURT:** Or he can bring one if he has one.

10          **MR. STANFORD:** Well, they won't -- I had to get your  
11          permission.

12          **THE COURT:** Oh, the answer is yes. Yes, of course.  
13          No problem.

14          Okay. Thank you all very much. I'll see you  
15          tomorrow. We're starting at 9:00.

16          **(Proceeding was adjourned at 6:16 p.m.)**

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CERTIFICATION

I certify that the foregoing is a correct transcript from the electronic sound recording of the proceedings in the above-entitled matter.



September 22, 2010

Signed

Dated

*TONI HUDSON, TRANSCRIBER*